THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE BRITISH COMMONWEALTH

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WAR DEBTS AND WORLD RECOVERY

EARLY in March representatives of the British Government will reach Washington at the invitation of the new President in order to discuss with his Administration the British debt to America. There will be other subjects of conversation, for in seeking to extend the scope of the conference Mr. Roosevelt is merely giving expression to the view of the great majority of his countrymen that the time has come to talk, if at all, of many things. But the first and most significant fact about this meeting is that it is the response of the United States authorities to the formal request made in November last by the British Government for a discussion of the British war debt.

The moment is opportune for an examination in the ROUND TABLE of certain aspects of the debt problem. Exhaustive treatment is impossible in anything less than a volume, and on that scale the work has already been done admirably.* Nor is it necessary to traverse again the whole ground covered by the British Note of December 1 last.† The historical origin of the debt and the long record of the negotiations, formal and informal, which preceded the funding agreement of 1923, were there rightly given full prominence. But they are not now the factors of most

* See, *e.g.*, *War Debts and World Prosperity*, by Moulton and Pasvolsky, published in September 1932 by the Brookings Institution. Both for the completeness of its record of the facts and for the lucidity and cogency of its economic argument, this book by two American economists is a model of what such work should be.

† Published as a White Paper. Cmd. 4210.

immediate importance. The Washington conference is not a gathering of academicians, searching for truth, but a meeting of two Governments for the purpose of negotiations on an urgent practical problem. As in every such transaction, there are limits set to the freedom of the negotiators, not merely by the facts themselves with which they have to deal, but by the public opinion to which they are responsible and to which in the end any agreement must be acceptable. What is the atmosphere in which the British representatives will find themselves ? What are the political, financial and economic considerations likely to influence the President of the United States and his advisers in their approach to the negotiations ? What, on the other hand, are the broad lines of the policy which carries the support of British opinion and on what reasoning does that policy rest ? Is there, or is there not, on the one side or the other, room for compromise or at least for some accommodation ? These are the practical questions of the moment, and it is to these that we propose to devote ourselves.

I. The American Environment

THE difficulty at the root of all Anglo-American discussion of the debt problem is not that British and American opinion take opposite standpoints. It is rather this, that an American opinion on the subject does not exist in the sense in which there is in Great Britain a quite clear and definite opinion commanding general acceptance. War debts plunge the disputant at once into international politics and the economics of international trade, into two realms of thought, that is, still infinitely remote from the general mind of America. The immense size of the United States, the wide variety of climate and natural environment, the lack of newspapers circulating beyond the immediate locality, the diversity of races still not fully assimilated—all these factors contribute to the

essential isolation of a self-centred people. Europe is a memory, personal or hereditary, rather than a living part of present reality, a memory which takes many shapes, few of them perhaps attractive.

It would be natural at any time that a people living against this background should approach international problems with greater caution and with more mental reservations than the peoples of Europe, who for centuries have been nurtured on such problems. That tendency is even more noticeable at the present time, when the life of the American people is shaken to its foundations by the economic and financial crisis. In their magnitude and variety, in the simultaneous power of their onslaught on a nation unprepared by temperament or by organisation to meet them, the domestic troubles of the United States are more formidable than those of any other country in the world. Unemployment has been estimated by Mr. Roosevelt at 12 millions, and there is no barrier except public and private charity between the workless and starvation. The national income is said to have diminished in three years by $40,000 million, or over 50 per cent. The Federal budget shows an accumulated deficit of $5,300 million in the two and a half years since July 1930, and this deficit is being increased at the present time at the rate of $120 million a month. Great cities like Chicago and Philadelphia are bankrupt, others like New York are kept afloat by their bankers with loans at 6 per cent. The national crisis has exposed the local banking system in all its weakness. Real estate indebtedness reaches fantastic figures, and behind and overshadowing every other problem is the hopeless insolvency of agriculture, saddled with farm mortgages of $12,500 million, which the fall in prices has turned into a burden equivalent to $30,000 million.*

These troubles of his own must, sooner or later, force the ordinary American citizen to review his economic relations

* Senator Borah in the Senate, January 4.

with the rest of the world. So far the effect of the crisis has been much the same in America as elsewhere. It has driven the American citizen back upon himself, and has made him more suspicious, more rigid in his Americanism than before—and this at a time when it is of far more consequence to the whole world than at any other period that the United States as a great creditor nation should not retire into its shell.

Amongst this people battered by adversity three main currents of opinion on the subject of war debts can be traced. *The leading bankers and economists* accept the broad lines of the European case for cancellation or drastic revision. They are immunised by their science or the daily experience of their business against the popular fallacies of the age. But they form a numerically negligible minority and their political influence is slight. A connection with Wall Street is all but an insuperable obstacle to high office. It contaminates the political aspirant like the breath of some private scandal in the England of the 'eighties. The real significance to the European of the discovery that bankers, such as Mr. A. H. Wiggin or Mr. T. W. Lamont, and economists, like Professor Kemmerer or Professor Irving Fisher, think and speak about war debts in the same language as himself lies less in any power of theirs to influence their compatriots than in their value as independent witnesses to the truth of his own convictions.

The second type of opinion is more widely held and probably carries much greater influence in the United States. It is found in important sections of the press and it has its representatives in political life. Beneath many shades of emphasis, its identifying marks are the recognition that in the world of to-day the debt settlements of ten years ago cannot stand, and the insistence that their revision must be "traded" for concessions by the debtors in other fields. In the quest for a counterpart to revision, some favour disarmament, others facilities for American trade, others again the stabilisation of the pound sterling in terms

of gold. President Hoover is the most eminent representative of this whole school of thought, and his more recent recorded views admirably illustrate both the strength and the weakness which are characteristic of it. He knows and admits that it is beyond the power of the debtor countries to carry out the present debt agreements. But his appreciation of the reasons why it is beyond their power is less keen than his sense of moral indignation that American prosperity should have collapsed, or that the world should refuse to disarm. The President's Message delivered to Congress on December 19 is a good example of what we have called this second type of opinion.

Price levels (he said) have been seriously affected by the abandonment of the gold standard by many countries and the consequent instability and depreciation of foreign currencies. I concur in the conclusions of many thoughtful persons that one of the first and most fundamental points of attack is to re-establish the stability of currencies and foreign exchange. . . . It must be realised, however, that many countries have been forced to permit their currencies to depreciate. It has not been a matter of choice. . . . While the gold standard has worked badly since the war, due to the huge economic dislocations of the war, yet it is still the only practical basis for international settlements and monetary stability so far as the more advanced industrial nations are concerned.

We read on, expecting to find the conclusion that payments on account of war debts must be remitted in the interests of exchange stability, but after a digression on disarmament the Message continues :

My views (on debts) are well known. I will not entertain the thought of cancellation. I believe that whatever further sacrifices the American people might make in the way of the adjustment of cash payments must be compensated by definite benefits in the markets otherwise.

The defeated party has no monopoly of these views. On November 28 Senator Pat Harrison, who will be chairman of the Senate Finance Committee in the next Congress, delivered a wireless address, which was generally thought

to represent the views of Mr. Bernard Baruch as well as those of the speaker himself. Impressed by the duty of the American Government "to see that our incoming youth shall not be slaves in the economic galley," the Senator suggested that alternative methods of payment should be considered. England might supply, "against some future war need," tin or rubber, jute or silver. Payment might be made in bonds or in industrial securities of the debtor nation. At the worst there was always gold. "It will be hard to convince our people that we would not be better off with payments in gold than with no payments at all."

But neither the view of the bankers and economists nor that of the advocates of adjustment in return for compensations reproduces the authentic voice of the plain American citizen. He, at least, has no illusions. He refuses to see in the request for revision anything more than a cunning attempt by the nations of Europe to transfer their own burdens to his shoulders. His attitude has been recently described in these words by an American writer*:

> Many Americans, fearful of being handed a gold-brick, stoutly maintain that Europe can pay. We have become largely an urban people, but so recently that we still have an uneasy recollection of how the rustic is continually cheated by the slick town trader. Europe is slick, a townsman, and we are not going to be taken in. That is the popular feeling, and a worldly-wise scepticism is the popular defensive pose.

For those who hold these views—and there is little doubt that they are still the overwhelming mass of the American people—the difficulty of transfer over the exchange means nothing; the only effect on the United States of receiving payments is that a contribution is made to the service of the internal debt, the only result of remitting them is that an equivalent additional sum has to be provided towards that service by the American taxpayer.

* *Motives Behind America's Stand on War Debts*, by S. Palmer Harman, in *Scribner's Magazine* for January.

There is little in the pronouncements of his immediate political leaders to suggest to the American man in the street that this view of the debt payments is incorrect or inadequate; and it is less astonishing that such opinions should be widespread than that they should be held on the whole with good temper, at a time when the harassing influences of impecuniosity have become familiar throughout the country.

From this electorate are derived the American Legislature and President, and to this electorate they are responsible. On March 4 the United States will welcome to office a new President, a new House of Representatives, and a Senate of which one-third of the members will be new men. They will function under a constitution not at all apt for the easy settlement of questions involving international relations. The theory of checks and balances on which the constitution of the United States was built has been admired and imitated, and there is no reason to doubt that in domestic affairs it has in the main fulfilled the purposes of its authors and facilitated the immense and rapid development of the country and its resources. But as an instrument of government in times of international crisis, in an age when the political, financial and economic destinies of America are inseparably linked with those of the outside world, the constitution in its present form is an anachronism. Instead of action and decision it induces paralysis. The President can govern only if he can impose his will on the Legislature. In that task his Cabinet can give little effective help. They are his secretaries, not his colleagues sharing a joint responsibility, and they are debarred from advocating his policy before either House. The Senate and House of Representatives derive their inspiration not from a Government of their own members, which enjoys their confidence so long as in the free play of debate that confidence is felt to be deserved, but from the distant constituencies and the party bosses. Without a clear majority of his own party in both Houses and wide support for his policy

in the country, no President can govern effectively except by the strength of an altogether exceptional personality.

Even in his own country the President-Elect is a dark horse. He was elected by a revulsion of feeling against his rival rather than by any fierce surge of enthusiasm for himself. But he is known as a man of absolute integrity and great personal charm. He has many friends and few enemies, and nothing but exceptional courage, patience and persistence could have carried him through grave physical incapacity to the Presidency of the United States. By foreign observers he is praised rather as a political tactician than as a natural leader; and only time can show whether the personal qualities which have won general respect will assert themselves in office as effectually as the boisterous vigour of a Theodore Roosevelt or the intellectual and moral force of a Wilson. On the debt question the views of the President-Elect are unknown and it is probable that they are still fluid. He will take office with the certainty that for two years, at least, Executive and Legislature must be Democratically homogeneous. He will know that in the early part of his administration neither the House nor the Senate will wish to humiliate him by factious opposition to any proposal which he presses with the full weight of his authority. But he must know, too, that the Legislature and its Committees, owing to the completeness of the Democratic victory, will be more than usually inexperienced. On the debt question he is aware that almost to a man Senators and Representatives are " on record " against general revision, even perhaps determined never to vote for it unless they can point to the perfidy of the debtors as proof that any alternative would be still more disastrous. He will appreciate, and probably share, the general feeling of sympathy with Great Britain; he cannot ignore the almost universal ill-will felt in the United States towards France, the bitterness and the lack of understanding which pervade all American comment on French policy.

This, sketched in outline, is the environment in which the Washington discussions will be opened in the limelight of American publicity. In such surroundings the prospects of reaching a satisfactory agreement, and of ensuring its ratification before the maturity on June 15 of the next instalment on account of the debt must remain in doubt. That doubt is intensified by the decision to pursue simultaneous negotiations on tariffs, monetary policy and the whole gamut of problems which await the World Economic Conference.

II. The British Case

IN essence the Washington conference cannot be distinguished from any other negotiations in which a debtor approaches a creditor with a view to the revision of the contract between them. It is the universal experience that such negotiations are most likely to lead with reasonable expedition to the conclusion of a new agreement when the debtor makes up his mind, and tells his creditor, what he can pay and in what form he can pay it. In this instance there are the strongest possible reasons for adhering to the traditional practice. Even a brief survey, such as we have essayed, of the currents of American opinion can leave no doubt that it is futile at the moment to look to the United States for any helpful concrete proposal of debt revision. Political tactics, domestic embarrassment and a failure to grasp the real issue all combine to prevent it. The debtor, on the other hand, is convinced that he has an unanswerable case: he knows that the creditor—that is to say, the American people as a whole—does not understand that case. He feels that his duty is plain, to develop his policy from his convictions and to take it to Washington.

The British case has been stated, officially and privately, many times, with the emphasis now on this aspect of it, now on that. Reduced to its essentials, the argument rests not on any abstruse economic theory, but on the

plain facts and figures of everyday economic experience. This very simplicity has perhaps contributed to the tendency to embroider the argument with irrelevant detail: it is characteristic of our sophisticated age to believe that what seems simple is probably spurious, and that truth cannot exist without subtlety. To the historian of our times a hundred years hence the emotions of the war years will have their legitimate part in the record, and the generous impulse which then moved the leaders of the American people to regard the advances to the Allies as a contribution to the common cause will be given its proper significance. But the present problem of the debts is a practical business problem, and even if the flickering sentiments of 1917 could again be fanned into flame for the America of to-day, they would not add strength to a good case for revision or conviction to a bad one. Again, the suggestion is often made, both by American and English writers, that given the right approach the United States will renew her traditional generosity. But Great Britain is no suppliant for generosity: she asks not that her creditor should be kind or liberal or forgiving but that he should be reasonable, from regard both for his own interests and for those of the whole world. It is unfortunately true that few individuals and few nations find it so easy to be reasonable as to be generous.

Rejecting everything that is not essential, and eliminating all appeals to passion or sentiment, let us briefly examine the British case for thinking that the debt funding agreement of 1923 cannot be carried out unless substantially modified. That case is built upon the premise that a debt of any magnitude owed by one nation to another can in the long run only be paid if the creditor nation lays itself out to receive payment. To be paid involves much more than passive acquiescence, it requires deliberate and positive action by the creditor. In his international balance of payments the sums which come to him under debt agreements will appear on one side of the account along with

his other receipts, such as the value of his exports or the income from his foreign investments or the money spent in his country by tourists from abroad. In order to balance the account, he must spend an equivalent sum abroad, either in the purchase of goods, or in payment for services such as shipping freights or insurance premiums or banking commissions, or in expenditure by his own nationals travelling as tourists in foreign parts, or in making investments abroad whether by loans to other Governments or to industrial enterprises or by acquiring property or securities. The creditor nation need not buy its goods or services from the country which is making payments to it on account of a debt. The channels of trade are intricate and the ultimate effect is the same if the goods and services are bought from a third country or from several other countries, which are thus put in funds to buy goods or services from the debtor nation. But although such triangular trade is the normal condition, there are circumstances which prevent it just as effectually as they prevent direct trade. If country A has a general tariff so high as to be prohibitive, it will exclude imports from C and D no less certainly than from B.

The history of British trade during the last two or three generations is the simplest illustration of the working of those processes just described. We received a great and increasing tribute from abroad in the form of income from our foreign investments and of freights and commissions. We made it possible for us to receive these payments by throwing open our markets to the traders of the world and by constant foreign lending. In other words, we so planned our trade and financial policy as to enable us to be and to remain a great creditor nation.

Now it is notorious that since the war the United States has, in her economic relations with the rest of the world, followed the opposite policy. She has laid herself out, in the free exercise of her sovereign rights, not to receive payments, but to impede them. By progressive stages

she has raised her general tariff to the highest level of protection. The Emergency Act of 1921, the Fordney-McCumber Act of 1922 and the Hawley-Smoot tariff of June 1930 were designed to preserve the domestic market for American industry, and their success in attaining that object has been complete and unqualified. Simultaneously, all the resources of the Government were put at the service of the American manufacturer in order to expand the export of American products to all parts of the world. By organized propaganda, by the work of the expensive foreign branch of the Department of Commerce, through the facilities offered to foreign students to obtain technical training in the United States, the legend was assiduously cultivated that American industry was destined to supplant the effete nations of Europe as the universal provider. The United States Government was not content merely to foster exports and to exclude imports. It resolved to build and to subsidize at the expense of the taxpayer an American mercantile marine and so to deprive the debtor countries of an important indirect method of meeting their obligations. At the recent meeting of the Orient Line, Sir Alan Anderson showed from the official reports of the United States Shipping Board that between 1920 and 1932 the American taxpayer provided, to cover losses incurred in building ships and operating them, £600,000,000 at par—a sum which, as he pointed out, is equal to twice the value of the British merchant ships engaged in foreign trade and ten times the value of the goods bought by the United States from Great Britain in a normal year, and exceeds by £50,000,000 at par the total payments for War Debts made to the United States by all her debtors up to 1931.

In two ways only has America helped her debtors to pay their debts. So long as prosperity lasted at home, American citizens spent money freely in Canada, in Europe, in the West Indies or in any other part of the world to which the call of business or pleasure took them.

But with hard times American tourist expenditure has dwindled rapidly and for years to come it would be unsafe to count on its resumption on the old scale. Of far greater importance was the spate of American foreign lending during the four or five years ending with 1929. That lending was often indiscriminate, even unbridled, and, in the absence of a firm tradition of genuine foreign investment, there was always the danger that it would end as precipitately as it had begun. In the light of the figures it is now amply clear that the fantastic structure of international non-commercial indebtedness would have toppled down some years earlier if American lending had not intervened to transfer the burden of reparations and war debts from the debtors to the private investor. According to the calculations of the United States Department of Commerce, during the nine years 1922–1930 the United States had an aggregate credit balance opposite the rest of the world of $5,000 million. That balance was covered as to $700 million by the shipment of gold to America—with damaging consequences both to the debtor countries from which it was taken and to the United States herself—and as to the remaining $4,300 million, by the net private investment of American citizens abroad. During the same period the total payments to America on account of War Debts were under $2,000 million. In other words there has been no reduction, but an increase in the world's indebtedness to America. So long as America was willing, directly or indirectly, to lend Germany the money with which to meet her reparation payments, those payments were maintained, and the creditors of Germany handed on to their own creditor, the United States, a part or the whole of their receipts. But when once American lending ceased, the bubble was pricked. If there had been no collapse of the New York stock market in 1929 and no headlong fall of world prices, the appetite of the American investor for foreign loans must soon have been satiated. For the debtor countries of the post-

war world, with their artificial frontiers and vexatious restrictions on trade, their political uncertainties and innumerable other legacies of the war, could not have maintained the pace set for them in the remunerative absorption of foreign capital. By 1929 many of them were already overborrowed, even for the price levels of those days. From whatever angle it is regarded the artificiality and impermanence of the situation during the years before the crisis is now evident.

In the light of these facts it must surely be apparent that any further attempt by Great Britain to carry out the present agreement can end only in failure. The contract is valid and the obligation unconditional, but in the world as it is performance of the contract is impossible. Great Britain has not been driven to that conclusion without strenuous and protracted efforts to meet her liability. The British share of the advances made by the United States during and after the war was $4,277 million, or 41 per cent. of the whole. Under the agreement of 1923 she undertook to pay in principal and interest $11,105 million, or just over 50 per cent. of the aggregate payments to be made by all the debtors under their funding agreements. Up to date she has in fact paid, before and since the debts were funded, more than $1,900 million, which is 73 per cent. of all the payments received by the United States on account of War Debts. These figures are adduced not in order to bolster up a plea for leniency—for leniency, we must repeat, is not at all what Great Britain is seeking—but as *prima facie* evidence that if this country to-day declares that it can no longer execute the agreement, that declaration springs not from "slickness," or even from mere weariness in well-doing, but from honest conviction. The 1933 annuity amounts to $184 million, which is increased to $203 million by the addition of the first agreed instalment in respect of the Hoover moratorium year. Since the debt was funded, wholesale prices have fallen 35 per cent. in terms of gold: thus the effective value of the annuity,

that is its real burden in terms of commodities, is not $203 million but $312 million. At the same time, owing to the depreciation of sterling, the cost to Great Britain of providing $203 million is no longer £42 million but £60 million. That sum is payable, moreover, at a time of unprecedented shrinkage in world trade, when the combined exports of Europe to all countries in the world have fallen in four years from an average of $1,200 million a month to half that amount.

Not only has Great Britain made resolute efforts, through a period of increasing stringency, to meet her liabilities to America, but she has been prepared, in advocating cancellation or substantial reduction, to accept sacrifices no less important relatively to national wealth than those which she was suggesting to America. In 1920 in round figures the United States was a creditor for $10,000 million (including $4,000 million owed by Great Britain) and Great Britain was a creditor for $7,000 million gross or $3,000 million net. It cannot be said that cancellation at that time would have involved a contribution by the United States seriously disproportionate to that which we were willing to make ourselves. When the debts were funded the present value, at the date of funding, of the aggregate annuities from all the debtors due to the United States (the rate of discount being 4¼ per cent.) represented 60 per cent. of the total debts funded. The similar percentage under the agreements made by Great Britain with her debtors was 30 per cent. Moreover, during the years between 1919 and 1931 the relative position of Great Britain on her debt account deteriorated. She received total payments, including those for German reparations, of less than $950 million, and as against this receipt paid to the United States almost $1,600 million. During the same period the United States received from all her debtors $2,200 million. In other words, the United States has had in interest or principal an amount equal to 22 per cent. of the $10,000 million for which she was a creditor in 1920,

whereas Great Britain has had from all sources substantially less than nothing in respect of her 1920 net claim of $3,000 million.

These figures are important and they are not as widely known either in England or in America as might be wished. For that reason we quote them. But they are not, after all, the essence of the British case. That, as we have tried to show, is simply that in present conditions nothing less than a revolutionary change in the whole trade or financial policy of the United States would be necessary if payments on account of these debts were to be made to any substantial amount in future. But can we at this time look for any such revolutionary change? Is it reasonable to expect 12 million unemployed to see work for themselves and prosperity for American industry by way of freedom of competition for the foreigner? Apart altogether from War Debts, America will no doubt sooner or later have to revise her present incompatible aims of low imports, high exports and no foreign lending. In the three years 1929–31 American exports to Europe exceeded American imports from Europe by $2,483 million, and in the first ten months of 1932 the excess was still as much as $391 million. But the inevitable changes in American trade policy can come only gradually; it is beyond the power of anyone outside America to accelerate them, and there is no reason to think that any responsible leader of American opinion would advise the debtor nations to take account of possible significant alterations in American trade policy when estimating the means open to them of making their payments.

If, then, Great Britain were to pay the instalments of the 1933 annuity maturing in June and December, in what form could the payment be made? Certainly not out of a credit balance of international payments. There can be little doubt that in 1932 Great Britain still had an adverse balance of payments (excluding capital movements) of not less than £50 million. A substantial reduction in imports failed, in other words, by that amount to compen-

sate for the fall in exports and the loss of income from foreign investments, shipping freights and banking and other commissions, which was caused directly or indirectly by the contraction of world trade and the widespread defaults to which it has given rise. We cannot improvise a favourable balance overnight, least of all when the United States and others of our best customers refuse to buy our goods or to make use of our services. But if the surplus is not there, we can pay only from capital or by borrowing. We could, for instance, ship our remaining gold until it was exhausted. In the process we should force down sterling prices and give an uncontrollable impetus to further deflation throughout the world. Or we could go out into the market and invite the holders everywhere of dollar balances to sell us those balances for sterling credits in London. In other words, we could borrow short to meet the service of a long-term debt, actively soliciting the renewal of short-term foreign deposits in the London market. It was the withdrawal of such funds in a moment of panic which drove the pound off gold eighteen months ago, and with none of our seeking the return of such funds in recent months, whether from motives of speculation or safety, has raised problems which must gravely preoccupy all who are concerned for the stability of sterling. But whether we shipped gold or bought dollars in the market against sterling credits, we should rapidly exhaust our resources, and the end, whether it came after one or two or even three further instalments, could only be default, absolute and final. We should be left only with the satisfaction of knowing that we had not defaulted until we had made certain of a further serious fall, probably a catastrophic fall, in the value of the pound sterling. British opinion shrinks, and is bound to shrink, from that responsibility and prefers, if no agreement can be reached and default within twelve months is thus made inevitable, to default now.

In seeking to protect the pound any British Government

would be conscious of protecting far wider interests than those of its own country. Even though divorced from gold and depreciated to its present level, sterling and its relative stability are vital to the trade of the whole world. No one knows better than the American or the German manufacturer that the continued adhesion of his own currency to gold can do nothing to protect him against violent fluctuations of the pound, with their incalculable repercussions on his own power to compete abroad. But there is another aspect of the debt problem in which Great Britain regards herself as a trustee for the interests of Europe and indeed of the world. After years of consistent effort in the same cause, British Ministers played a leading part at Lausanne in destroying the whole conception of reparations. The Lausanne Agreement removed what the world now recognises to have been one of the most insidious causes of international ill will, and at the same time a powerful factor in the development of the economic crisis. Insistence on the preservation of the war debt agreements means the tearing up of Lausanne, and even if there were not a dozen other valid reasons for a revision of War Debts, Great Britain would hesitate to destroy the settlement of Lausanne in order to maintain the debts intact. To the American ear this may sound like a European front, but it is nothing of the kind. The pressure of the facts, and not a conspiracy of other nations, brought France at last to abandon reparations. Equally, it is not Europe which has combined against America, but the harsh realities of economic life.

Such, in outline, is the British case for urging the American people to face a radical revision of the debt agreements. It is a cause espoused, not by a small minority, such as the American economists and bankers, shut out from political influence, but by the whole body of thoughtful Englishmen, irrespective of class or profession. Their views, which we have endeavoured to present, are held all the more tenaciously because they are felt to be the fruits

of a long and honourable experience by Great Britain of world trade and of international finance, an experience far longer and far more varied than that of America. This does not mean that these views are held arrogantly. British opinion frankly acknowledges and freely condemns the many sins against common sense and against the lessons of the past into which this country, like all others, has fallen in the economic and financial confusion of the post-war years. If it feels that the American people have kept their illusions about the debt settlements when Great Britain has long since discarded her own, it is neither incompetent nor unwilling to seek the explanation of that difference in the historical and economic background of the two nations.

III. British Policy for Washington

ANY policy propounded at Washington by the British representatives will rest on a case indistinguishable from that which we have outlined. It remains, therefore, to consider the general lines of the policy to which the British case leads naturally and inevitably.

It points, first, to the necessity for an early and a final settlement. There may appear, at first sight, to be a certain plausibility in the suggestion that the time is not ripe for a final agreement. American opinion is moving, however slowly, towards the recognition that the problem of payment is primarily a transfer problem. Given time, America may go further towards meeting the debtors than if the debtors attempt now to sweep her off her feet. Moreover, it may be suggested, a settlement made when the world is in the depths may be no less unfair to America than the settlement of 1923 has proved to be to Great Britain. The true burden of any given payment cannot be apparent until prices find some more permanent level than our hopes are willing to concede to the prices of to-day. Why not, then, make some provisional arrangement and

agree to examine the position again in four or five years? The answer is inherent in the whole British case, and it is that neither we nor the rest of the world, nor even America herself, can afford to wait. Debts are not an isolated problem which can be segregated from the rest and kept under observation in some compartment of its own: debts cannot be treated by the Governments of the world as a bacteriologist would treat his cultures. Until they are finally settled uncertainty will reign in the world. Uncertainty is perhaps the most formidable remaining hindrance to recovery, and if it is not now exorcized, all international and national efforts towards recovery must be frustrated. By painful stages, disastrous in their effects on world trade, the problem of reparations advanced to a tardy solution. In its present state of prostration the world cannot support for a second time the folly of temporising with a radical evil. For this reason Great Britain is bound to press for a definitive settlement within the next few months.

The second guiding mark of British policy is that the settlement must reduce the liability of Great Britain to an amount which it is beyond all reasonable question within our power to pay without endangering the stability of sterling. British debt policy has been governed since 1922 by the principle of the Balfour Note:—

> In no circumstances do we propose to ask more from our debtors than is necessary to pay our creditors. And, while we do not ask for more, all will admit that we can hardly be content with less.

That declaration permanently debars Great Britain from making a profit on balance out of her debt agreements, but it can offer no guarantee to Great Britain against a loss on balance. In the Washington negotiations the British representatives will have no means of knowing whether any further payments, and if so what further payments, will be made to Great Britain by her own debtors. They are bound, therefore, to assume that any payments which they undertake to make in future in respect of our debt to

America will be a net liability, unrelieved by any credits on the other side of the account. If we ask what is the maximum sum that this country can pay without disturbing the future stability of the pound, we can expect no general agreement as to the answer, since there is no scientific basis for the calculation. No phrase such as "capacity to pay" can offer a sure guide. For it does not prescribe whether payment is to be made out of income or out of capital or partly out of each: it does not tell us whether what is meant is capacity to pay for a few years at the expense of the rest of the world, or permanently without strain, or conditionally on the United States relending her surplus to the world. It means one thing if payment is to arise out of the normal working of the national trade policy, and something altogether different if that policy is to be radically changed by the wholesale restriction of imports, with the corollary abroad of a further diminution of the volume of international trade and at home of intense deflation and a lower standard of life, in order that the working effort of the nation may be devoted primarily to the provision of the annuities on the American debt. American opinion is no more likely to arrogate to itself any such right of governing our destinies as a nation than it is to admit our right to dictate American economic policy. Therefore in deciding what maximum payment it can offer, the British Government must assume a normal development of national policy, and in a world so bedevilled with obscurities is bound to err rather on the side of caution than of rashness.

Finally, everything points to the wisdom of a settlement for a capital sum rather than for an annual payment. The obligation will then cease to be an obligation from one Government to another, and will become an obligation from a Government to the private investor. Not until the debt is removed from the category of political into that of commercial problems can the world have any security that the shadow of this controversy will not fall

across the path of international relations, darkening counsel with monotonous perversity. By a final capital payment, Great Britain will recognise once more the contractual validity of her present obligation, and by accepting such a settlement the United States will save the world from the consequences, no less unpleasant to herself than to the debtor, of the only alternative, default.

It is probable that proposals on these lines involve something much more nearly approaching cancellation than American opinion is at present willing to accept. Fair warning has been given that any suggestion of revision will be countered by a claim for concessions in other spheres—a drastic reduction in armaments, facilities for American exports or the return of Great Britain to the gold standard. It is a reasonable inference that the greater the reduction that we seek in our liability the higher the price that we shall be asked to pay in other directions. In the words of an American journalist, the stage is set at Washington for "one of the greatest give-and-take swapping contests ever started." Now if the British view is a sound view, as we are convinced it is, there can seldom have been a negotiation which offered less scope for such a contest. Disarmament is no more relevant than prohibition: we are as powerless to procure the one as the Federal Government is to enforce the other. If it lay in the power of the United States and the British Empire by bilateral agreement to secure the practical disarmament of the world, then the world would long since have been disarmed. The problem is notoriously less simple than that, and at the root it is not a financial but a political problem. Great Britain and the United States can at any time by full and free co-operation wield great influence in the cause of political appeasement and world peace. That co-operation can be had for the asking: it cannot be bought as the price of a debt settlement. But the penalty of failure to reach an agreed settlement may well be an atmosphere in which frank co-operation is precluded for a decade.

Is there any greater possibility of commercial or financial concessions ? As a " trade " against a debt settlement, we believe not ; as part of a programme of general economic revival to follow a debt settlement, yes, indubitably With all other conditions unchanged, guarantees of American exports can only be additional guarantees of British default. So long as the British liability for debt payments is uncertain or fixed at an amount which there is any doubt as to our ability to meet, no British Government could return to the gold standard for fear of being forced to abandon it again. But to clear debts out of the way, after disentangling the problem from all others rather than entangling it with them still further, is to open the door wide to a constructive and concerted effort in the World Economic Conference for the restoration of world prosperity. In that Conference the United States and Great Britain can give a decisive lead. No one who reads the draft Annotated Agenda,* which is the unanimous work of the Preparatory Commission of 25 experts, drawn from 17 countries (including the United States), can doubt either the magnitude of the task or the scope which it offers for reciprocal concessions over a wide field. The Commission has drawn up a programme of work, which must be attacked as a whole if any progress is to be made. The four main aims are the restoration of an effective international monetary standard, steps to counteract the unprecedented fall of commodity prices, the abolition of exchange restrictions and, finally, greater freedom of international trade. As an essential preliminary to this programme, the Commission places the settlement, or the definite prospect of a settlement, of the problem of inter-governmental indebtedness, without which, in the words of the Commission, " these debts will remain an insuperable barrier to economic and financial reconstruction."

In such a programme rather than in the debt discussions, the preoccupations of the United States in regard to her

* Published by the League of Nations, January, 1933.

own exports or the stabilization of the pound fall into their proper place. Any successful attempt to attain greater freedom of international trade must lead to the moderation and stabilizing of tariff policies everywhere and to the profitable extension of American trade with the rest of the world. As to the gold standard, serious opinion in Great Britain has a thousand reasons for desiring a stable pound and none for wishing sterling to float loose. But a return to gold involves reasonable security that the standard will work, and no mere agreement to define the gold content of the pound will give that security. The gold standard can only be maintained if it is not asked to support the strain of large movements of gold in one direction. In other words, countries such as the United States and France must be prepared either to have a very small credit surplus, and therefore small gold imports, or to lend their surplus abroad. If the United States agreed to co-operate with Great Britain and France for the restoration of an effective monetary standard, knowing and accepting all the implications of such an agreement, there need be no fear, once debts were out of the way, that any hankering for the independence of the pound would deter Great Britain from undertaking, with all proper precautions, *de facto* stabilization and in due course returning to the gold standard at some new parity with gold.

It is no part of our task to consider what for lack of a better term may be called the tactics of the Washington negotiations—who are the most suitable representatives for this country, whether we should send a large or a small delegation, in what order they should approach the subjects for discussion at the Conference, and so on. We assume that the British Government will wish to do everything in its power to ease the position of the new President and to meet his wishes in such matters of procedure so far as it can do so consistently with its duty to its own public. But if we turn from tactics to essentials, we shall have failed in the main purpose of this article if we have

not made it clear that in our view it is not Great Britain but the United States which is faced with a choice of policies at Washington. Neither British opinion nor the facts which have moulded it leave the British Government any alternative but to stand out for a final settlement of the debt for a relatively small capital payment, at the same time proffering the fullest and most helpful collaboration in the work of the World Economic Conference for the economic and financial recovery of the world. The Government and people of the United States must choose between accepting that offer and forcing their debtor to default. Acceptance means an apparent immediate sacrifice, with the opportunity, perhaps the last in this generation, to recoup it many times over in a revival of general prosperity. The alternative of a forced default by the debtor adds to the immediate sacrifice the prospect of embitterment and isolation in a world drifting into decay. We believe that when the American nation understands the significance of its choice, it will again throw in its lot with the world.

THE OPPORTUNITY AT WASHINGTON

THE Conference which President Roosevelt has proposed should take place in Washington early in March between himself and representatives of the British Government—if possible Mr. Ramsay MacDonald in person—will be fraught with exceptional significance. If Mr. MacDonald goes to Washington, either in March or a little later, the discussions will clearly be concerned with much more than the war debts. For the world is probably in a more disorganised and dangerous condition to-day that it has been since the religious wars, and it is this situation, of which war debts are only a part, which makes a journey by the Prime Minister worth while. The real necessity of the hour is that the firmly established National Government in Great Britain and the new Administration in the United States should, as a preliminary to the World Economic Conference which is to meet later in the year, try to reach a common mind as to the way out of the morass in which we are all plunged to-day. For not the least of the difficulties before that Conference is that the United States has remained aloof from the rest of the world so long, that some bridge has to be built between her present view and the views of Europe with regard to the remedy for the depression.

There are still considerable difficulties in the way of agreement. President Roosevelt, it is true, comes into office with a strong party majority in Congress behind him, untrammelled by the commitments and pledges of his predecessors, clearly convinced that, to a large extent, the solution of the domestic problems of the United States lies in international action of some kind, and with a mandate to take whatever action may be necessary to end the

depression. But public opinion in the United States is only gradually awakening to the extent to which its own problems are now inseparable from those of the rest of the world and only soluble by some degree of international action. Its natural tendency is to link all the problems together and to seek a comprehensive settlement in which concessions on debts can be set against concessions in other spheres by the debtors; and the public discussion of war debts, initiated by Mr. Neville Chamberlain on the eve of the Washington negotiations, created resentment in the United States by making it clear that Great Britain did not consider that any bargain was possible, and expected not a "generous" revision, but a virtual cancellation, as necessary in the light of the economic facts of the time. The United States is anxious to secure an early return to an international gold standard, in order to stop fluctuating exchanges, but the revision of national economic policies, without which any such step can only be a step in the dark, is not, either from the political or the narrower economic point of view, an easy task. The Ottawa agreements have caused a good deal of resentment in the United States, as well as elsewhere, and will certainly figure in the forthcoming discussions. There is, too, at present no consensus of opinion on both sides of the Atlantic as to what it is either practicable or desirable to do to dispel the depression, though the January report of the experts of the Preparatory Commission for the World Economic Conference seems to offer a reasonable agenda for discussion. Nor is there, as yet, any common ground on political issues, notably in the matter of the future relations between the United States and Europe and the League of Nations, and the attitude of all three to the Far East.

As all these matters ought to figure in the Washington discussions, if the Conference is to be a real success, it may be useful to set forth some ideas with regard to them in the following pages. For, whether we like it or not, and whether it succeed or fails, the Conference is bound to

have a profound effect on the way in which world civilisation, now shaken to its foundations, is to develop in the next few years.

II. The Political Issues

THE world war gave a rude shock to the complacency of pre-war civilisation. To thinking men and women in all countries the central lesson of that destructive struggle was that war will remain endemic among men so long as national States claim unlimited sovereignty, and to be a law unto themselves, while its horrors and destructiveness will progressively increase with the progress of man's mastery over nature. The recognition that lasting peace means some form of world law binding all nations, both to submit their disputes to pacific settlement by reason and justice and to take collective police action against nations which break the law and resort to violence, bore fruit in the Covenant of the League of Nations. But the hopes of those who founded the League have been disappointed for two main reasons. The first is because the United States, having through her President, played a leading part in making the principle of self-determination the basis of post-war Europe, and in drawing up the Covenant, withdrew from Europe and from the League, thereby imposing upon Europe alone the burden of maintaining the treaty settlement, with results on the policy of France and the armament situation which were discussed in our last issue.* The authority of the League, moreover, was thereby weakened and Article 16, the so-called sanctions clause, rendered nugatory to the extent to which that clause depended for its power upon the use of naval blockade against an aggressor. In the second place, the League itself, partly because of the withdrawal of the United States and partly from the obligations placed upon it by the treaties of peace, became mainly concerned with the

* The Round Table, No. 89, December 1932, pp 5–9.

internal problems of Europe, rather than with those of the world.

It is now quite clear that if there is to be any real progress towards lasting world peace, Europe must, through some agreed revision of the treaties, in so far as they relate to eastern Europe, attain to some kind of stable political equilibrium within its own boundaries, without guarantees from outside, and that the League—or some new world association based upon the Kellogg Pact—must secure the active co-operation of the United States in dealing with world problems, notably the prevention of war and the pacific settlement of international disputes, and in providing that measure of collective security against a law breaker which is the condition of an all-round disarmament agreement. The attainment of these ends will take time. What form they may take it is impossible to foresee. But an increasing number of thinking people in the United States are coming to recognise that world peace means world organisation, or world government in some form, and that real progress to this end is impossible without the assumption by the United States of genuine responsibility for steering the world, only they insist that world politics must be disentangled from the day to day politics of Europe. Until the British Commonwealth and the United States begin to base their thinking on these foundations we shall continue to encounter the disillusionments which have disappointed us since 1918. The broad issue of how the world is to be politically stabilised is perhaps the first question for the Conference at Washington to discuss.

III. Economic Issues

ECONOMIC issues, however, are even more urgent than political. On the economic side the same central lesson that self-centred nationalism is as incompatible with prosperity as it is with peace—a lesson almost com-

pletely ignored at the Paris Peace Conference—is also beginning to be recognised. What is not yet so clearly recognised is that it is also incompatible with the individualist or capitalist system. In order to grasp the present situation, let us look for a moment at the economic development of the modern world in perspective.

The so-called capitalist system, that is to say, the system of leaving the use of the discoveries of natural science, in their application to industry and agriculture, to private enterprise and private capital, has proved, despite serious drawbacks, much the most effective system for raising the economic standard of living of mankind that the world has known. Broadly speaking, during the nineteenth century, it enabled the transportation of between 30 and 40 millions of Europeans across the Atlantic, and gave them the highest standard of living ever attained. In the present century before the war the United States was still capable of absorbing 1,000,000 new immigrants a year,* without creating unemployment. In Great Britain the population quadrupled and there was a corresponding rise in the standard of living. In Europe the population rose from 180,000,000 to 450,000,000, most of whom were also on a rising standard of living. South Africa and Australia were growing at a great pace, and development was in progress at varying rates of speed in South America and Asia and in Africa generally. It is impossible to say that a system which produced these results, and at the same time immensely increased the facilities for education, recreation, travel, transport, culture and amusement for ever-widening circles of humanity was a failure or intrinsically bad.

In the latter part of the century, however, two other movements came into play. On the one hand, nationalism invaded not only the political, but also the economic field. It introduced the tariff, not merely as a convenient source of revenue, but also as a means of artificially forcing

* The immigrants for each of the years 1905, 1906, 1907 and 1910 were just over one million.

the growth of industrial development in particular countries taken by themselves at a rate that would probably have been impossible under free trade. The nationalist system of protection gradually became more pronounced as vested interests grew up behind the tariffs, and long before the war it was commencing to upset that almost automatic adjustment of supply and demand which was the strength of the free trade system. It began to keep alive uneconomic production, to over-develop certain forms of production, and to disturb the balance between the production of food, raw materials and manufactured goods, without any consideration for the effect on the world balance of supply and demand. Up to 1914, however, the effect of this kind of political interference with the free play of the market, both in the sphere of production and of exchange, was relatively unimportant, for the export of capital for development purposes and the rapid growth of trade in the rest of the world disguised it. It is, however, easy now to see that it was all the time inevitably tending to prevent that continuous adjustment of supply and demand to which we have already referred, and which is essential for universal employment, healthy finances, and the solvency of debtors, both domestic and international.

On the other hand, there was a growing discontent with the evils of unrestricted capitalism, which showed itself in two main directions. The radical and liberal part of the world carried through, in varying degrees, programmes of factory legislation, social insurance against old age, sickness and unemployment, education and, in later years, graduated taxation designed to lessen inequalities in wealth. By 1914, programmes of social reform had gone far in the direction of mitigating the evils of the excessive competition which attended the early stages of the industrial revolution—even in such backward parts of the world as Africa—though they too had the effect of interfering to some extent with the free play of the market

in the adjustment of the balance of supply and demand. A left wing movement, however, not content with mere social reform, regarded the whole individualist system, which established profit-making as the motive for all economic development, as fundamentally anti-social, because it treated labour as a commodity to be bought and sold in the market. This movement strove to set up a new order in which the means of production, distribution and exchange would be nationalised and managed exclusively in the general interest, with the object of ensuring a more or less equal standard of living for all citizens, and of putting an end to the system of "living by owning" capital.

The world war, which intensified both the processes just described, had the effect of still further dislocating the old economic order. On the one hand, Russia became an isolated economic area, and China lapsed into chaos. On the other, the war over-developed certain industries, necessary for war purposes, at the expense of others. It converted the United States from a debtor into a creditor nation; it greatly increased the barriers which impeded world trade by creating new national (tariff) boundaries in Europe, and the old tariffs were heightened all over the world; it set up the ideal of self-sufficiency, with the result that the nations subsidised at great cost the production at home of commodities which could be better and more cheaply obtained from abroad, with disastrous effects upon the agriculture and industries of the other countries which previously had supplied these things; and finally, by creating vast international obligations in respect of reparations and war debts, the war imposed a strain on the exchanges, which could only have been sustained if universal free trade had made possible payment in goods and services and rapidly restored the old expanding world market. Indeed, the system left by the war was only enabled to remain in existence as long as it did by the artificial and temporary process whereby the creditors, between the

years 1924 and 1929, lent (mostly to Germany) sums equal to, or more than, the amounts they were due to receive for reparations and debts.

Hence the great crash of 1929, when the process of foreign lending, which, for four or five years had disguised the hopeless disturbance of the balance of supply and demand throughout the world and created a premature confidence in recovery—and in the possibility of bolstering up the gold standard—was brought to an end by the American stock market boom. But the crash, while it revealed the realities of the situation, only intensified the strain upon the exchanges. Restrictions on imports, and drastic exchange restrictions and embargoes, all designed to protect national credit and currencies, helped to create a state of panic, which in the end was largely responsible for driving Great Britain and other countries off the gold standard, with the result of fluctuating exchanges and fresh embargoes and restrictions. Action of this kind taken by any country produced profound reactions in all others, and immense areas of economic devastation, especially in agriculture, but also in industry, came into existence. This in turn led to irresistible pressure on parliaments everywhere to interfere drastically with internal trade, by the adoption of marketing and quota schemes, or the purchase of surplus supplies, while at the same time ever-growing budgetary charges were incurred for subsidies to collapsing industries, or the relief of unemployment.

The net result is that to-day world trade is still falling and unemployment is still increasing in most of the capitalist countries of the world, while their governments intervene more and more ruthlessly in economic affairs, with increasingly disastrous effects on their budgets. The world is, in fact, at this moment, also moving steadily towards national socialism, a form of socialism which is, however, put into effect by nationalist right wing parties and not by the socialist or revolutionary left wing.

The Opportunity at Washington

IV. The Immediate Alternatives

IT may be that the world is permanently heading for national socialism. Democracies, when in economic trouble, demand not that their governments should keep their hands off business, but that they should interfere more and more—a tendency which becomes intensified in proportion as unemployment increases. Nor does there seem to be any doubt that, for a long time to come, the national State will become an economic no less than a political unit. The old ideal of combining a more or less cosmopolitan free trade world order with complete national sovereignty in the political sphere seems to-day to lie far outside the field of practical politics.

In point of fact, there is no inherent reason why the capitalist system, given free play, should not raise the standard of living of the whole world in the twentieth century, just as it raised the standard of living in Great Britain and the United States during the nineteenth century, with the aid of the protective devices against the abuse of free competition which democratic governments were learning to apply before the war. Capitalism, as a system, has not failed. It is being prevented from working by political interference, partly based on nationalist and partly on socialist ideals. It can only function if it is once more set free from a large number of the present-day restrictions, and if the free play of the market is allowed once more to be the governing factor in its evolution. It simply cannot function if it is "cribbed, abused and confined," both nationally and internationally, as it is to-day.

But even if it is true that the present drift is towards national socialism, no country in the world has yet thought out the lines on which national socialism is to be applied in actual practice. The Western world has clearly rejected communism, with its nationalisation of everybody and everything through the dictatorship of the proletariat, the

abolition of private property, except in the form of bank savings and personal effects, and the enrolment of all citizens in an economic army directed by a communist party directorate. Socialism, in the West, is much more likely to concern itself with trying to define the dividing line between public and private ownership, saving, and enterprise inside the national State, and with formulating a programme for the regulated exchange of foodstuffs, raw materials and commodities between the national units. It will also have to make up its mind as to how far the parliamentary system of democracy, as it has been hitherto known, is fitted to assume the new burdens which will be placed upon government under such a system. All the evidence to-day goes to show that, while parliamentary institutions are suitable for the performance of the political functions they were created to discharge, they are quite unsuitable as an agency for planning or directing the economic life of a country. All this thinking will however take time, and it may be that when public opinion sees what the cost of national socialism is going to be, it will prefer a reformed type of capitalism.

But at this moment the issue is not between a return to universal free trade and a conscious advance towards national socialism; it is whether the nations of the West are to drift helplessly towards bankruptcy, inflation, the cessation of all international trade, increased unemployment and social discord, or whether they can contrive to restore some common-sense way of working the *de facto* economic order, and so gain time in which to plan consciously and intelligently the future form of their economic life.

What does this mean in practice? The following is a summary of the Introduction to the Draft Annotated Agenda* for the World Economic Conference, issued in January of this year:

The number of workers unemployed has been estimated by the

* See *The Times*, January 20.

International Labour Office at no fewer than 30,000,000; wholesale prices have declined since October, 1929, by about one-third; world stocks of agricultural products and other raw materials continue to accumulate; industrial production has been drastically curtailed; the total value of the world trade in the third quarter of 1932 was only about one-third of that of the corresponding quarter of 1929.

Only a handful of countries retain free and uncontrolled gold currency systems; currency disorganisation, price declines and curtailment of trade have thrown into sharp relief the difficult problems of indebtedness.

The Commission considers that further losses of ground cannot be contemplated without the gravest forebodings. Happily, in some quarters there have recently been certain auguries of improvement. Thus security markets in almost every country have for several months past shown a decided improvement. Nevertheless, economic recovery will be halting and restricted, if unaccompanied by broad measures of reconstruction.

In essence the necessary programme is one of economic disarmament. In the movement towards economic reconciliation the Armistice was signed at Lausanne; the London Conference must draw the Treaty of Peace.

Failure in this critical undertaking threatens a world-wide adoption of ideals of national self-sufficiency which cut unmistakably athwart the lines of economic development. Such a choice would shake the whole system of international finance to its foundations; standards of living would be lowered, and the social system, as we know it, could hardly survive. These developments, if they occur, will be the result not of any inevitable natural law, but of the failure of human will and intelligence to devise the necessary guarantees of political and economic international order.

The primary object of any world economic conference must be to arrange whatever international steps may be possible to get these 30,000,000 men and women back to work, making useful things and rendering useful service to one another. For the root trouble of the modern economic world is not overproduction or underconsumption, as is often said, but the fact that, for the various reasons given in the preceding section, people are no longer making things and rendering services which are exchangeable against one another. Thanks to tariffs, embargoes, debts, subsidies, and government interference of every kind, they

are deliberately being compelled to make too many of certain things, and are thus deflected from making new things which the world needs, or from creating world markets for the old things. Hitherto it has been the free play of the market which has adjusted supply and demand by the relentless but largely effective process of putting out of business those who could not provide goods or services as cheaply or as well as their neighbours, and of giving profits to those who could find new and better ways of meeting human needs at home or abroad, that has been the governing factor in supply and demand. Left to its own free play, the old system, as we have seen, was astonishingly successful in raising the standard of living of mankind, and though subject to brief trade cycles of depression, in adding continually to the sources of employment through the division of labour. If we are to get out of the depression that process must in some effective degree be restored. Even under a national socialist system the problem of the distribution of production among the nations, and of arranging for the interchange of their products would still have to be solved.

The immediate problem, therefore, is to remove as quickly as possible the worst of the present impediments to the adjustment of supply and demand through the free play of the market, which spring from the excessive economic nationalism of the post-war years, and the quickest way of doing this is for the nations to learn to look at the world as an economic whole, and not at their own individual case only. Once that is done, it will become obvious to all of them what the effect of war debts and reparations, high tariffs, embargoes and fluctuating exchanges when seen in their proper perspective, really is on their own fortunes, and a start can then be made on a course of action which will enable them to turn the corner of the depression. And the Report of the Preparatory Commission to which we have already referred suggests a general programme and a detailed agenda, summarised below, which the World

Conference will have to discuss, if that corner is to be passed.

It is the urgency of the issues, political and economic, that have been discussed in the foregoing pages, which gives special significance to the meetings which are to take place in Washington. It is significant, partly because it is the United States which, more than any other country, has it in her power, as it is in her own interest as well as in that of the rest of the world, to promote those steps, political and economic, which are necessary to get international trade going again, and partly because Great Britain is the best intermediary between the United States and Europe. The only way forward is honestly to face the whole problem of world recovery.

APPENDIX*

Summary of the General Programme for the World Economic Conference

The Commission's programme of reconstruction does not include the problem of inter-governmental indebtedness, because this problem lies outside its terms of reference; but "until there is such a settlement, or the definite prospect of such a settlement, these debts will remain an insuperable barrier to economic and financial reconstruction."

The Commission refers to the close inter-connexion between the elements of the problem. "A policy of 'nibbling' will not solve this crisis. We believe that the Governments of the world must make up their minds to achieve a broad solution by concerted action along the whole front."

(1) In the field of monetary and credit policy the objective must be the restoration of an effective international monetary standard to which the countries which have abandoned the gold standard can adhere. Each Government must remain free to decide when and under what conditions it could accept such a standard after most careful preparation and every safeguard against such a restoration of the gold standard leading to a fresh breakdown. In this respect the Commission considers it would be useful to see whether measures can be taken with the co-operation of the central banks on the lines of the recommendations in the Report of the Gold Delegation of the League to ensure a greater stability of price levels in the future.

* Taken from *The Times*, January 20, and *Essential News*, January 28.

(2) The Commission notes that the unprecedented fall of commodity prices has caused a growing disequilibrium between costs and prices, has immensely increased the real burden of all debts and fixed charges, has made business more and more unprofitable, and has resulted in a continuous and disastrous increase of unemployment. . . . It considers that one of the measures that should be envisaged is a general policy of easy money designed to promote a healthy expansion of business. It also thinks that the question requires to be considered whether in the case of certain primary commodities where large stocks are overhanging the markets a better level of prices could not be obtained by the regulation of exports or production. Such an arrangement could be of special importance in the case of wheat. The Commission adds that any rise in prices which might be obtained by such means could naturally in the long run only be maintained by a general improvement of trade such as would follow from the abolition of present-day restrictions and the restoration of financial confidence.

(3) The abolition of measures of exchange control is, in the Commission's opinion, an essential condition of world recovery, but such an abolition is only possible if there is a lasting balance in the budgetary system, and to secure such stability the Governments concerned must make an effort to adapt their budgetary and economic systems. In some cases, however, these efforts will not be sufficient so long as there is a mass of short-term foreign debts, which may at any moment be withdrawn. The Commission also notes that the service of long-term foreign debts might entail great difficulties, which must be examined with much care. The main objective must be to restore the confidence of the foreign lending markets, and this depends largely on the future level of prices.

The Commission considers that if appropriate action is taken on these points the markets of the creditor countries may soon be in a position to resume lending operations, but, fearing that the return of international confidence may be a slow process, it says that Governments should consider whether they cannot expedite the restoration of free exchanges by methods likely to put into active circulation resources at present immobilised, and thereby provide, under proper conditions, stabilisation credits for the countries which require such assistance.

(4) The Commission considers that there must be greater freedom of international trade, and recalls that one of the most significant features of the present crisis is the fall which has taken place in the value and physical volume of world trade. To a certain extent this fall has been caused, and has certainly been intensified, by the growing network of restrictions which have been imposed on trade during recent years. Every country seeks to defend its economy by imposing

restrictions on imports, which in the end involve a contraction in its exports. Such a policy leads to an increasing paralysis of international trade. Governments should set themselves to re-establish the normal interchange of commodities.

The Commission says that every effort should be made to secure a general agreement for the progressive relaxation, and the complete abrogation at the earliest possible date, of the emergency measures—prohibitions, quotas—imposed on trade as a result of the crisis. In addition, it will be necessary for the Governments to pay attention to the question of excessive tariffs and to arrive at agreements for the moderation and stabilisation of tariff policies in the future.

The Commission concludes this part of its Report with the statement that any action in the direction of a return to freedom of trade has an intimate bearing upon the stabilisation of currencies, as it is impossible to maintain the international monetary system except on the basis of an international economic system. "The great creditor nations have a special responsibility in this respect."

Conclusion.—In formulating this programme we have been dominated by the desire to find effective and enduring remedies for the present depression and for the unemployment which weighs so heavily on the whole world. We believe that partial remedies in this field will not be successful. What is needed is a comprehensive programme of world reconstruction, and this should be carried through as rapidly as possible so as to strengthen the forces which are now working towards recovery.

Contents of the Second Part of the Report.—The second part of the report consists of "annotations to the agenda." This contains the Committee's observations on the problems raised by the main questions in the agenda. The table of contents of this part of the report, which enumerates the problems, runs as follows:

I. Monetary and Credit Policy

1. Conditions under which a restoration of a free international gold standard would be possible.
2. Currency policy to be followed prior to such restoration.
3. Functioning of the gold standard.
   (a) Relation between political authorities and central banks.
   (b) Monetary reserves: (1) Lowering of cover ratios; (2) gold exchange standard; (3) other methods of economising gold; (4) distribution of monetary reserves.
   (c) Co-operation of central banks in credit policies.
4. Silver.

II. Prices

1. Disequilibrium between prices and costs.
2. Measures for restoring equilibrium.

Appendix

III. Resumption of the Movement of Capital

1. Abolition of foreign exchange restrictions.
2. Existing indebtedness: (1) Foreign short-term debts; (2) foreign long-term debts.
3. Movements of capital.

IV. Restrictions on International Trade

1. Economic causes and effects.
2. Exchange control clearing agreements, etc.
3. Indirect Protectionism.
4. Possibility of abolition restrictions.

V. Tariff and Treaty Policy

A 1. Cessation of tariff increases.
 2. Reduction of tariffs.
 3. Special aspects of the tariff problem.
 4. Method of procedure.

B. Most-favoured-nation clause.
 (*a*) Permanent exceptions.
 (*b*) Temporary exceptions.

VI. Organisation of Production and Trade

1. Economic agreements.
2. Wheat.
3. Other products.
4. Transport.

THE VICTORY OF MR. DE VALERA

I. Cumulative Difficulties

ON January 2 the Governor-General of the Irish Free State, acting on the advice of the Executive Council, dissolved the Dail. This decision, although sudden and unexpected, was in reality the almost inevitable result of the preceding events. The White Paper, published at the end of October, which contained the papers relating to the October conference between the British and Free State Governments, only emphasised, what was already apparent, that Mr. de Valera's Government refused to accept the Financial Agreements of 1923 and 1926, made by their predecessors, as binding, on the ground that they had not been specifically ratified by the Dail, although they were not expressly stated to be subject to such ratification. They also traversed the assertion of the British representatives that the Land Purchase annuities were debts due by the tenants to the Land Purchase Fund held by the British National Debt Commissioners, and maintained that the liability of the Irish tenant purchaser was a liability to the State which was completely discharged when he paid his annuity to the Irish Land Commission. But this did not prevent them from accepting the Financial Agreement of 1925, which was undoubtedly ratified, and which absolved the Free State from any liability for the National Debt, although this agreement was, of course, based on the assumption that land annuities, local loans, and police pensions would continue to be paid into the

British funds as heretofore. Had this not been the obvious basis of the arrangement the British Parliament would, of course, never have ratified that agreement. The fantastic claims of the Irish Government, based on alleged overtaxation going back to the Act of Union, proved that Mr. de Valera was bent on reopening every possible subject of controversy between the two countries, and that he wanted to eat his cake and have it. The differences disclosed by the White Paper were indeed so fundamental that it is difficult to understand how any agreement could have been contemplated by the negotiators.

The complete failure of the negotiations, the increase of the British duties on our agricultural produce under the Special Duties Act, and the further British duties that came into force under the Import Duties Act on November 15, 1932, created a situation that could only end in the complete paralysis of our economic life.* The Free State Government announced on November 1 that they had decided to make arrangements to pay, out of the special emergency fund of £2,000,000 voted by the Dail, to exporters of certain manufactured goods the amount of the duty paid by them on such goods entering the United Kingdom. This decision, which was described as temporary, coupled with the bounties already being paid on agricultural exports to Great Britain, meant of course that the unfortunate Free State taxpayer was, in effect, paying the British duties. The deadlock between the two Governments was now complete, and, speaking at the Ard Fheis, or annual convention, of the Fianna Fail party in Dublin on November 7, Mr. de Valera declared that so far as his Government was concerned the land annuities would never be paid. But he also proclaimed that they stood for free speech and democratic rights, and were not going to permit any section of the people to take upon themselves duties that interfered with the functions of the Government. Anyone found in

* See The Round Table, No. 89, December, 1932, p. 140.



possession of arms would be proceeded against with the full rigour of the law.

On November 15 the combined effect of the British Special Duties and Import Duties Acts imposed on all agricultural produce entering Great Britain from the Free State duties of 40 per cent. *ad valorem*, except in the case of bacon and pork, on which the duties were 30 per cent. To meet the losses arising from these duties the Free State Government announced temporary export bounties on eggs and dead poultry. Up to December 3 the revenue received on these imports into the United Kingdom from the Free State amounted to £1,238,000, but the British Parliament had to vote a supplementary estimate of £3,410,955 in substitution of payments due from the Government of the Free State. The Free State trade returns for the four months August to November, during which a condition of "economic war" has existed between the Free State and the United Kingdom, complete the story. As compared with the same period in 1931 our imports have decreased by £4,900,958 and our exports by £5,863,252. In short, for every £100 of goods we purchased in that period during 1931 we purchased £71 in 1932, and for every £100 of goods we sold in that period during 1931 we sold £59 in 1932. Our exports have therefore fallen much more rapidly than our imports. If the same rates of decrease continue for a full year our adverse trade balance will be increased by, approximately, £7,000,000. In other words, after giving full credit for the £5,000,000 which is being withheld from the British Treasury, we should have still lost on balance £2,000,000. No wonder Mr. Lemass, the Minister for Industry and Commerce, stated in the Dail last November that it might be necessary, no matter what losses might be involved, to export cattle, pigs, bacon, butter, or something else, as the Russians were doing, not because they could get an economic price but because something must be exported to pay for the purchase of machinery

and other goods which could not be produced in the Free State. At the same time he announced a fresh list of 26 tariffs of 50 per cent., with a one-third imperial preference, on various articles made of wood. It is notorious that the bounties being paid on cattle exported to the United Kingdom pass into the pockets of the cattle dealers and never reach the unfortunate farmers.

The situation had now become so serious that it fully justified the motion of censure moved by Mr. Cosgrave, the Leader of the Opposition, in the Dail on November 15, in which Mr. de Valera's Government was condemned for their continued failure satisfactorily to adjust their differences with the British Government, and for pursuing a policy which has caused grievous injury to the agricultural industry, serious damage to the export trade of the country, heavy losses to the community, and gravely increased unemployment. No Government, he said, ever had such opportunities as that of Mr. de Valera. None had ever made such a hash of their chances by their neglect of the ordinary canons of international decency and their obstinate insistence on unilateral interference with the Treaty. By breaking the pledged word of the Irish people they had brought discredit on the honour and reputation of the State, and made it impossible for advantage to be taken of the unique and timely opportunities of the Ottawa Conference. They had precipitated a dispute with Great Britain fraught with disastrous consequences to all sections of the people. By their blundering incompetence in the handling of that dispute they had not only involved the country in a terrible economic war of attrition with a rich and powerful nation but had precluded themselves from making an honourable settlement. It was a wholly unnecessary and wretched struggle which, in order to mislead the people, they dignified with the name of a war, while they were without a staff, without a plan, and without an adequate supply of war material. The Free State was facing political and economic disaster,

and it was the duty of every member of the Dail, unless he was utterly oblivious of the people's sufferings, to insist that such a tragic state of affairs should be ended, and that the country should be saved from irreparable damage and disaster.

Mr. de Valera, replying, said that arbitration before an Empire tribunal had not been accepted as a matter of principle at the Imperial Conference, and the British had no right to insist on its being so treated now. As regards the negotiations, the Free State Government had done nothing to make them impossible, but the whole aim of the British seemed to be to squeeze Ireland into giving up the Government the people chose, and putting in one which would be more accommodating. He asked why the Cosgrave Government had never opened up the annuities question with England. To this query Mr. Cosgrave answered, in closing the debate, that his Government did not approach England on the annuities question because England was then facing an economic crisis, and the Free State was relatively in a stronger financial position. With the fall in live stock prices the situation had changed entirely, and if the Government approached England on the basis of being unable to pay they would be met sympathetically. On being put to a division, the motion was lost by 70 votes to 75, Labour voting with the Government. This was the lowest point to which Mr. de Valera's majority had fallen, and showed a complete union of all the other parties, except Labour, against his policy.

On the following day, November 16, Mr. Cosgrave moved that the collection of the land annuities should be suspended during the operation of the British tariffs, on the ground that these tariffs imposed on the farmers a burden at least equivalent to the annuities. During the debate Mr. de Valera announced that the Government had decided to give the annuitants some relief. Where desired, the current year's arrears would be funded at 4½ per cent. over a period

not less than that over which the annuities as a whole were due to run, with the result that the farmer who was unable to meet his liabilities would be freed from pressure. He also promised early legislation which would give a permanent remission of a substantial portion of the existing annuities. No doubt he would have preferred to promise complete remission, but this is impossible, because more than a third of the Irish agricultural land has been purchased under the Land Acts passed by the Irish legislature since the Treaty, and the interest on the Land Bonds issued in payment of the purchase money, although guaranteed in part by the British Treasury, is a direct charge on Irish revenue, which even Mr. de Valera could not repudiate without completely destroying our credit. Neither could he treat the farmers who have purchased since the Treaty differently from those who had purchased before; so he would be forced to spread any relief obtained from retaining the annuities due to the Land Purchase Fund over the entire land purchase operation.

The appointment of the new Governor-General, which was announced on November 25, was an excellent example of political tight-rope walking. Amongst the many notables and nonentities suggested by rumour for the appointment, the name of Mr. Donal Buckley, an elderly country shopkeeper, was never mentioned. But it is clear that in making this appointment Mr. de Valera was seeking to placate the extremist element, for Mr. Buckley led his local commando from his native town, Maynooth, to take part in the rebellion of 1916, and is a strong supporter of the Irish language movement. He also sat in the Dail as a practically silent member of the Fianna Fail party until the 1932 election. In short, he fulfils all Mr. de Valera's requirements and reduces the position of Governor-General to that of a Gaelic rubber stamp for affixing to Acts of the Oireachtas. He has been installed in an unpretentious suburban villa with Irish-speaking civic guards in attendance; the Viceregal Lodge is closed, and it is

understood that he will only draw a small part of the statutory salary.

But all these manœuvres failed to soften the Republican heart, and their paper *An Poblacht* declared that, to disguise the office and its functions by calling the King's deputy a "Seanascal" and by associating the Irish language with his functions, was only adding insult to injury. The fact that a veteran of three wars for an Irish republic, an Irishman and an Irish speaker, now deputises for the British King was not an alleviation, but an aggravation of the national shame. It is interesting to note that Mr. de Valera, who would not attend any social function with Mr. McNeill for fear of compromising his principles, openly consorted on such occasions with Mr. Buckley. The relations between Mr. de Valera and the extremists were indeed becoming much more difficult. They denounced his leadership as cowardly, and complained that he permitted the forces of the State to be used to guarantee freedom of speech to traitors to spread defeatist and pro-British propaganda. He so far yielded to their demands as to send on compulsory leave Colonel David Neligan, the chief of the detective force, whose activities were displeasing to them. The "Boycott British" League, which is another disguise for the I.R.A., had meantime embarked on an active campaign against British beer, and raids were made on the premises of Messrs. Bass and Co. in Dublin and Cork, where some beer was destroyed. Subsequently lorries of Bass's ale were, at the request of the publicans' association, escorted through the streets of Dublin by members of the Army Comrades Association* and no further molestation occurred. Although this attack on British goods was ostensibly condemned by Mr. McEntee, the Minister for Finance, speaking in the Dail, he was careful to add that traders must bear in mind the consequences of flouting public opinion, and the Minister for Justice refused to receive a deputation of publicans, who sought protection from intimidation.

* See The Round Table, No. 89, December, 1932, p. 125.

Cumulative Difficulties

But this does not end the tale of Mr. de Valera's troubles. The tariff situation had now become so complicated that virtually no one but the responsible officials knew from day to day what articles were liable to duty. For instance, the tariff imposed on the chassis parts of motor-cars, which was designed to compel car manufacturers to manufacture these parts in the Free State, proved a complete failure and has had to be abandoned. Its only effect was almost to end the importation of motor-cars. As the duty of 50 per cent. on complete bodies is still in force not much improvement is likely in this business. So confused had the tariff situation become that the Government had to reappoint the advisory Tariff Commission, which they had discontinued on taking office.

Speaking in the Senate during December, Mr. Lemass, the Minister for Industry and Commerce, said that the only justification for the continuance of the association with the British Commonwealth was that substantial benefits were conferred upon the people of the Free State, and if, as at present, no such benefits were experienced, then the necessity for the maintenance of the association was removed. They had not decided to take action to remove it. That was not a matter for decision by the Government or the Dail or the Senate. It depended upon the people. He was sure that the people, if they could not see in the future a prospect of substantial economic advantages from the association, would decide that the sooner they terminated it the better. By surrendering all their rights they could get an amelioration of their position, but they did not propose to do that. On which statement it may be permitted to comment that it is only the action of Mr. de Valera's Government that has deprived us of the substantial economic advantages we enjoyed and could have increased in the British markets.

Whilst all these difficulties were accumulating Mr. de Valera's relations with the Labour party became gradually more strained. In November the Free State railway

workers revolted against the majority decision of the Railway Wages Board which reduced their wages by 10 per cent., and a general strike was only averted by the Government undertaking to pay the amount of the cut until April 30, 1933, and to introduce immediate legislation to deal drastically with the transport situation. Owing to the tariff war the railway companies—already in a serious condition*—were within sight of complete financial collapse. The proposed reduction would still leave the men's wages 131 per cent. over pre-war rates, although the cost of living increase at the present time is only 53 per cent. Labour costs form 70 per cent. of the total railway expenditure. At the end of December a more serious situation arose owing to the Government's decision to enforce the reduction of one-thirteenth in the cost of living bonus of all civil servants at the beginning of the new year. This reduction would naturally affect most the lower paid grades of the Civil Service, such as the Post Office Workers Union, to which Mr. Norton, the Labour leader, belongs, and it soon became obvious that, whatever might be his personal inclination, the pressure from the rank and file of the civil servants would make it impossible for him to prevent an open breach with the Government. On December 30 the Government decided, under Labour duress, to enforce only half of the proposed reduction in the case of the lower grades of the Civil Service, but this concession was apparently fruitless, as the Labour leaders announced that they would now seriously consider whether they could continue to give parliamentary support to the Government.

Almost at the same time events occurred which clearly indicated that a movement was taking shape to unite the Cumann na nGaedheal party with Mr. MacDermot's Farmers League and other independent forces into a new constructive national party having for its immediate aim the re-establishment of friendly relations with England on a just basis. First suggested in a letter to the Irish press

* See The Round Table, No. 86, March, 1932, p. 382.

›m an Independent member of the Senate, Senator 'thur Vincent—who recently was associated with his her-in-law, Mr. Bourn of San Francisco, in the gift to e nation of the beautiful Muckross estate at Killarney—iich appeared on December 28, it was further developed December 29 at a private meeting in Dublin of represen-ive professional men summoned by the Lord Mayor, uch passed a resolution calling on all believers in peace direct negotiation to combine their immediate political orts in one great national movement which would end e disastrous economic war, ensure the complete mainten-ce of the Treaty, subject to its alteration or development proper methods, and conclude trade agreements with 'eat Britain which would secure and improve the position our farmers in the British markets and make possible the llest industrial development in the Free State. These ents constituted portents which Mr. de Valera could no iger ignore.

II. The Surprise Election

F the surprise of his opponents at an inconvenient moment was Mr. de Valera's aim, then he was wise to 'ce the dissolution of the Dail on January 2. The ›vement for the consolidation of the forces opposed to n was barely launched: his principal supporters, the ›ourers and small farmers, had not yet experienced the ll brunt of his policy; the Labour party were afraid to 'e the chance of political extinction; and the taxpayer d not yet felt the shock of the next budget. Moreover, was faced with four by-elections early in February, ne of which he would most probably lose. But it may surmised from his own statements that the really cisive factor was his increasing irritation at the precarious litical situation in which he found himself. Pressed by bour on the left, sniped at by the I.R.A. in the rear,

and harried by the more conservative element amongst his own followers on the right, his position had become intolerable to a man of his autocratic mentality. The decision, at all events, was entirely personal, for neither his Labour allies nor the rank and file of his own party had any idea that an election was imminent. Only some members of the Executive Council were consulted, and it is probable that growing differences in that body hastened his decision. In a statement to the press made at the same time as the announcement of the dissolution, he denied that the friction with Labour over the Civil Service bonus was responsible, and indicated that it was due to the precarious position of his Government, which prevented the British Government from coming to a settlement and deterred Irish industrialists from availing themselves of the advantages that his policy of unlimited protection afforded them. The national attitude of Labour had, he said, been satisfactory, and they hoped to co-operate in future.

Mr. de Valera's programme, as revealed in his opening campaign speech at Dublin on January 5, was principally remarkable for its omissions. It contained no mention whatever of any intention to declare a republic, but it reiterated his already familiar policy of high protection coupled with greatly increased tillage, internal political peace based on the abolition of the oath of allegiance, and the permanent retention of the land annuities as well as their reduction by one half. The general election was being held, he said, in order to secure a feeling of certainty, because his programme required a strong government to carry it out. In conclusion he appealed strongly for public order and freedom of speech during the election. Towards the end of the election campaign he issued a manifesto in which he promised, if returned to power, to abolish the Senate, as it at present exists, and to reduce the number of members in the Dail. This manifesto contained no reference whatever to a republic, but stated

that he desired the friendliest relations with Great Britain, and would continue to strive to get British statesmen to realise that lasting peace between the two peoples could only be secured on one basis, namely, that the people of Ireland should be at liberty to determine for themselves what their governmental institutions were to be and the extent of their co-operation with Great Britain on matters of agreed common concern.

The promise to remit half the land annuities was of course a bid for the farmer's vote. Mr. Cosgrave, however, promptly went one better, for he promised that if returned to power he would end the economic war with England in three days, secure for the Free State its proper place in the English markets, reduce the land annuities by one half and entirely suspend payment of the annuities for two years. A cynical humorist pointed out that the only further inducement possible would be an offer to pay annuities *to* the farmers. Mr. Cosgrave also agreed to make no drastic changes in the existing tariffs without proper investigation, and to disturb no legitimate vested interest. He also promised to reduce taxation and to put the railways on a sound footing. He intended, he said, to provide markets instead of bounties, work instead of doles, fair play instead of writs for the farmers, courage and hope instead of suffering and sacrifice.

Mr. Frank MacDermot, the leader of the new National Centre party, which represents the large farmers and stands for a prompt and satisfactory settlement with England, and refuses to identify itself with the acrimonious performances of the two big parties, announced, in reply to the demand for a national coalition against Mr. de Valera, that he did not think that the sacrifice of his party's identity and independence would be a good thing for the country, and, on the other hand, undue egotism would be out of place in such a crisis. The Government, he said, were seeking a snap election to get returned to power before they had been fully found out. Their excuse was quite

ridiculous, as a favourable settlement of the economic difficulties with England would be easy at any time if they would recognise the country's honourable agreements, and was impossible otherwise. Mr. James Dillon, a son of the late Nationalist leader, and an Independent member of the Dail, joined Mr. MacDermot, and brought to the new party not only considerable ability but, what in Ireland is more important, an historic name. Unfortunately Mr. Cosgrave and Mr. MacDermot were unable to arrive at a *modus vivendi* before the election, although an arrangement was made in a few constituencies as regards some minor points of electoral strategy.

The extreme Republicans were divided in their attitude. Miss MacSwiney's Sinn Fein party, which may be described as the Old Guard of the movement, proved the more intractable, and refused to compromise their integrity by taking any part in an election to "the British Dominion Assembly of Southern Ireland," whilst the Irish Republican Army, the younger and military wing, after a careful examination of conscience at a specially summoned convention, decided that Mr. de Valera was the lesser of two evils, released their followers from the restriction that prevented them from taking part in elections to the Dail, and recommended them to work and vote against the Cosgrave candidates and "their so-called independent allies." They were careful, however, to emphasise their dissatisfaction with Mr. de Valera's Government, and accused it of weakness, inability or unwillingness to achieve republican aims, and of claiming for itself a legitimacy it denied the Cosgrave Government. They demanded the scrapping of the Treaty, the abolition of partition, and complete severance from the British Empire, stating that they were only supporting Fianna Fail because it was a way of driving out of public life a party which had sold itself to the British Empire and would, if returned to power, lead to civil war. Finally, they called on the people to see that the youth of the country were left free to arm and drill.

Mr. de Valera's reactions to these overtures were not satisfactory from the Republican point of view. He stated early in the election that he had no intention of seeking a republic for the Free State area, and that his aim was a republic for all Ireland—an ambition which anyone outside a lunatic asylum must realise postpones the establishment of an Irish republic under present conditions in Ireland to Tibb's Eve. Whether this statement reflects the honest policy of an impossible idealist or the device of an astute politician to side-track the issue, it definitely removes an Irish republic from the sphere of practical politics. He was also careful to state that if he were returned to power no section of the community would be allowed to arm, and that all arms would be completely at the disposal of the majority of the freely elected representatives of the people. Needless to state, the I.R.A. at once challenged his right to make such a statement. It may indeed be surmised that in some respects the support of the I.R.A. was a considerable embarrassment to Mr. de Valera, for the serious disorder which took place at a public meeting of Mr. Cosgrave's supporters in Dublin on January 8 was obviously organised by them and injured Fianna Fail. Mr. de Valera's newspaper protested vehemently against this organised rowdyism, and his Government took every precaution to prevent its recurrence. No serious disturbance took place during the rest of the election. There is little doubt, however, that if the Army Comrades Association had not been organised to meet this threat, free speech and a free election would have been alike impossible. Both are now definitely established.

The position of the parties at the dissolution was as follows :—Government group : Fianna Fail, 70 ; Labour, 7 ; total, 77. Opposition parties : Cumann na nGaedheal, 54 ; Independents, 11 ; Farmers, 4 ; Independent Labour, 2 ; total, 71. These, with the four vacant seats and the Speaker, Mr. F. Fahy (a Fianna Fail deputy), made up the full Dail of 153. The nominations for the new Dail on

January 12 were as follows: Government: Fianna Fail, 102; Labour, 19; total, 121. Opposition: Cumann na nGaedheal, 85; National Centre party, 26; Independents, 10; Independent Labour, 3; total, 125. Apart from Mr. Cosgrave's promise to remit the land annuities for two years, the election produced no new or striking declaration of policy. Even Mr. Cosgrave's promise had been previously indicated by his motion in the Dail to suspend payment of the annuities during the economic war with Great Britain. Numerous attempts were made by Mr. de Valera and his followers to embroil Mr. Thomas in the election, but, fortunately, except for one rather unnecessary reference by him to allegations concerning the Ottawa conversations, these efforts to draw the red herring of English interference over their own blunders completely failed. Early in the election some excitement was caused in the south by the defection from Mr. de Valera's party of Mr. W. Kent, who had been already selected as their candidate for the by-election then pending in East Cork. Mr. Kent, three of whose brothers were killed during the Anglo-Irish hostilities, was a Republican of undoubted standing, and in joining the new National Centre party he declared he could no longer be responsible for the ruin of the country by Mr. de Valera's policy.

As the struggle progressed it became obvious that Mr. de Valera's party realised that the cry of "perfidious Albion" was not sufficient to win the election, and they appealed more directly to the pockets of the manufacturers, labourers and small farmers, by promising increased tariffs, more relief schemes, and increased bounties. His paper* openly boasted that they were the only party which had considered the poor. Very little was heard of the oath of allegiance and the republic, which had given place to questions of bread and butter. Some Fianna Fail manufacturers who had profited by the increased tariffs let it be known that their factories would be closed if Mr. Cosgrave was victori-

* *The Irish Press.*

ous. All the forces of economic discontent and extreme nationalism were directed to turn the election into a class war. In the end it became clear that the issue for decision was, in short, whether the irresponsible or responsible elements should control the economic life and policy of the Free State. On the one question that really mattered, namely, how and when he proposed to end the struggle with England, Mr. de Valera, save for the one vague reference in his final manifesto already noted, preserved a careful and complete silence.

The election revealed no change in political technique. Both leaders made whirlwind tours of the country by motor-car, speaking in practically every constituency. There was the usual spate of electoral oratory, with full-page and somewhat hysterical advertisements in the daily papers. Having regard to the serious issues at stake, it is a matter for national congratulation that the election passed off without serious disturbance. Both the Government and the Opposition parties did their share in bringing about this most desirable state of affairs.

III. The Result of the Election

THE result of the election fully justified Mr. de Valera's Napoleonic political strategy. Having surprised his opponents, he then defeated them before they could consolidate their forces. The final figures were as follows :—Government group : Fianna Fail, 77 ; Labour, 8 : total, 85. Opposition group : Cumann na nGaedheal, 48 ; Centre party, 11 ; Independents, 9 : total, 68. These figures give Mr. de Valera a bare majority (counting the Speaker) of one over all other parties, but with Labour a majority of 17. He is therefore for all practical purposes still dependent on Labour, as before the election, save in so far as he can claim to have increased the numbers of his own party. On the whole it is to be regretted that he is not

entirely independent of Labour, which will naturally continue to demand class legislation as the price of its support. But for the operation of proportional representation, which preserves a proportionate representation for minorities, there can be no doubt that Mr. de Valera would have secured a far more decisive victory. The polling day passed off quietly, and, save for some small disturbances in a few remote rural districts, was without incident. The poll itself was the most exhaustive which has taken place since the Free State was established. There is little doubt that extensive personation was practised in many parts of the country.

The reasons for Mr. Cosgrave's defeat are obvious. His political organisation was far inferior to that of his opponents. The Fianna Fail party had a network of effective branches all over the country. Whilst the Cosgrave Government was in office they neglected their political machinery, and have not had time to recondition it properly since they went into opposition. Mr. de Valera had the immense advantage of being able to represent himself as the innocent victim of English aggression. His battle-cry was the old and popular one: "Are you for or against Ireland?" The full effect of his economic policy is not yet apparent to the great majority of the people, but they have benefited by increased old age pensions, free milk for children, cleverly distributed grants for unemployment, and cheaper food, owing to the embargo on agricultural exports. He definitely appealed to the masses as against the classes. This is the first Free State election which was mainly decided on such issues. He also made good use of the fact (which he disclosed during the election) that Mr. Cosgrave was refused a moratorium by the British Government in 1931 in respect of a payment of £250,000, an instalment of the annual payments due under the financial settlement of 1925. The new Centre party, by dividing the farmer's vote, injured Mr. Cosgrave's party more than that of Mr. de Valera, and must definitely weaken his position in the new

Dail. Mr. Cosgrave has also lost two of his principal lieutenants, Mr. Blythe, his former Minister for Finance, and Professor Hayes, the former Speaker of the Dail. The Labour party disappointed all the political prophets by gaining a seat on balance, and this result is also due to proportional representation.

As for the future, most of Mr. de Valera's difficulties still exist. He can now abolish the oath of allegiance within sixty days, in spite of the Senate. But there remains the question of his relations with Labour and the I.R.A., the railway crisis, and the vital necessity for arriving at a settlement with Great Britain. There are no indications of an easy or prompt solution of any of these problems. In an announcement made after the election he stated that the national policy had now been definitely determined, and he appealed to all citizens of good will to co-operate in restoring the country to its former greatness and making it a happy and worthy home for all its people. It remains to be seen how these high-sounding platitudes will be applied in practice.

The reactions of the other parties to the result of the election were what might be expected. Mr. Cosgrave's party, which must be seriously disappointed at the inaccuracy of their over-confident forecasts, stated that the immediate task of their organisation was to prepare with all diligence for the next contest so as to ensure that then it would be possible to put the country once more on the path of sure and steady progress. The last month was for the politicians; the future was for statesmanship. The policy of the main Opposition in the new Dail would be, they claimed, progress on a sound economic basis of construction and courage in shaping the country's political destiny. The Lord Mayor of Dublin, Alderman Alfred Byrne, T.D., is understood to be still pursuing his plans for the creation of a National Centre party, to combine all the Opposition parties against Mr. de Valera, but the published statements of Mr. Frank MacDermot, the leader of the new

Centre party, do not indicate much inclination to travel in that direction. The Labour party will, apparently, maintain their previous position as independent supporters of Mr. de Valera. In an official statement they announce that they will give full support to measures which are in accordance with the national and economic policy as laid down in their programme, and on all matters the party's aim will be to ensure that the legislative enactments passed by the Oireachtas shall be progressive and beneficial in character. On the question of the dispute with Great Britain they declare that their policy is already well known, and will be pursued. They conclude by stating that the Labour party neither desires, nor will seek, a coalition with any other party.

The I.R.A., intoxicated with victory, which they naturally ascribe to their activities, demand the removal of General Eoin O'Duffy, the Chief Commissioner of the Civic Guard, on the grounds that the force under his control was guilty of provocative conduct during the election; in other words, that they insisted on maintaining the right to free speech, and dealt effectively with organised intimidation. In so acting General O'Duffy and his men were carrying out the definite orders of the Government, which Mr. de Valera cannot, and indeed will not, repudiate. The Adjutant-General of the I.R.A., in an anonymous manifesto, declares that the urgent and essential duty is to deprive the pro-British sections of their privilege and power by cutting away from them their resources. That power had as its basis landlordism and domination over the commerical and industrial life of the people. He complains that neither the destruction of these imperialist interests, nor the achievement of national independence, was made the issue by any party in the election. Their aim would not be realised until the system which had arisen out of the conquest, and exists in alliance with British Imperialism, was destroyed at its roots, and until those who defend it are decisively routed.

Mr. de Valera's speech at Ennis on February 5 indicates

that he at least has a better comprehension of the problems before us. He asked for forbearance from capital and labour, and for co-operation from all sections. He appealed to former Unionists, in the words of Wolfe Tone, to abolish the memories of old dissensions. If they loved their country, its interests should come first with them, and they should help in the forward march. It is impossible to understand Mr. de Valera, unless one remembers that he believes himself to be a man with a definite mission. He seeks self-determination for Ireland as a whole. If Ireland thus freely decides to remain within the British Commonwealth, then he would apparently accept that verdict. But it must be a free verdict. The Treaty of 1921, which, in his opinion was imposed by force, must be definitely cancelled. He considers that the Irish people, by reason of their belief in intellectual and spiritual rather than in material values, are specially fitted for the vital task of helping to save Western civilisation. Ireland, in his view, must recall men to forgotten truths and place before them the ideals of justice, of order, of freedom rightly used, and of Christian brotherhood. Ireland to-day has, he claims, no dearer hope than humbly to serve the truth, and to help by truth to serve the world. The result of the election does not, as he sees it, indicate hostility to Great Britain, but simply a desire for independence. His economic aims, if vague in detail, are clear in outline. He wants to ruralise and decentralise industry. He has no use for mass production. He envisages a frugal Christian Ireland where no man is rich and no man is hungry. He belongs to that category of mankind with whom one cannot argue but must only agree. He is not in the least like the ordinary politician, who proceeds by negotiation to compromise.

Is there, one may ask, any key to such a door? To which one must answer: only by abolition of partition can it be opened. The unity of Ireland is an ideal for which Mr. de Valera would undoubtedly sacrifice much. But it must be unity from within, unity based on the free choice of the

whole Irish people. It need not sacrifice the domestic freedom of Northern Ireland if it concede the essential unity of all Ireland. Such a solution would not only give us a united Ireland, but also a British Commonwealth, united in a common policy of national development and international peace. Have the leaders of Northern Ireland sufficient imagination and courage to face and decide this momentous issue, so pregnant with national fate, or are the differences in mentality, religion and political outlook—which now, unfortunately, divide us from our Northern fellow-countrymen—impossible to surmount?

The Irish Free State.
February, 1933.

JAPAN AND THE LEAGUE

I. The Reaction to the Lytton Report

FOR some time before September 30 last, when the Lytton Report was officially communicated to the Japanese Government, it was easy enough to predict the way in which it would be received in Japan. This was not because its contents were known or conjectured—though it seems that there was some leakage—but because the Government had already taken steps to " discount " the findings of the League of Nations Commission of Enquiry, first by recognising Manchukuo, and next by mobilising public opinion in advance against the Report. The *mot d'ordre* was that, unless the Report was favourable to Japan, it was a bad report and should be treated as of no importance.

On October 1, the War Ministry issued a statement to the effect that they would study the historical section of the Report with care, and point out vigorously any mistakes they found. As for the Commission's views on the settlement of the Manchurian problem, these need not be regarded as of any significance. General Araki, the War Minister, had already publicly announced that, if the League of Nations found itself unable to take the Japanese point of view, Japan was quite ready to leave the League. The General, whose utterances are not without an attractive simplicity, had some days before stated to an interviewer that Japan had no wish to ruin the League by seceding, but, if it refused to take the Japanese point of view, then Japan could co-operate with it no longer. The

Ministry of Foreign Affairs were rather more discreet, but, allowing for correct professional restraint in language, they said very much the same thing.

It was not surprising, therefore, that when the Report was published, it should meet with a chorus of disapproval. There were no dissentient voices, or if there were, they were only inaudible murmurs. The Ministry of Foreign Affairs were reported to have described the document as "prejudiced" and "improper." Admiral Okada, the Minister of Marine, said it was "worthless." General Araki, true to form, vehemently denounced it as a "mere book of travels" which anyone could have written after a week's journey in Manchuria. If the League thought that the adoption of the Report could lead to an amicable settlement, the League was vastly mistaken. The League had shown itself incapable of solving European problems. How then could it be expected to settle those of the Far East?

With such a lead, it was to be expected that denunciation of the Report in Japan would be both widespread and intense. And so it was. Distinguished generals expressed deep indignation. The Ex-Soldiers' Associations commenced activities which were "to stir up public opinion at this momentous juncture." They held meetings throughout the country and passed resolutions of which the following may be regarded as typical.

> Should the League of Nations and the Powers blindly believe in the Lytton Report, which is based on biassed views and fallacies . . . . justice will be trampled under foot, and world peace disturbed. On the eve of the League Council's meeting, which is fraught with dangerous possibilities, we have come together in the process of spiritual mobilisation, and hereby declare to the world that we have completed the preparations for putting down iniquity and vindicating justice.

Less dithyrambic, but equally vigorous, protests came from other bodies, such as chambers of commerce, a group of university professors, and numerous patriotic societies,

some of which were newly formed for the purpose. The newspapers gave prominence to the Report, to its faults, to the incompetence of the League, for several days, and nationalist feeling seemed for a time to run very high. It was, perhaps, no more than a coincidence that at this period there was an outbreak of spy mania. The most innocent movements of foreigners were in several places watched or hampered by the police or by self-appointed detectives, thus giving rise to "incidents" which were perhaps, too comic to be regrettable. Also, at this time, there was a dispute between certain military enthusiasts and the students of Roman Catholic schools who, because on religious grounds they had abstained from observances in honour of soldiers killed in war, were charged with want of patriotism.

A person not familiar with Japan might well have concluded, on a superficial view, that the whole country was aflame with indignation and seething with xenophobia. Yet this would not have been true, for most foreigners going about their usual business continued to meet with kindness and courtesy, while Manchuria and the League seemed to enter very little into ordinary conversation. But certainly support of the official policy was universal.

It is interesting to examine the reasons for this unanimity, not only because it is an historical phenomenon almost without parallel in modern times, but also because to understand it may help to throw some light on future movements of opinion. In the first place, the Japanese have a strong tradition of obedience to authority, a truly remarkable solidarity. Their history has not been such as to encourage disagreement with their rulers, and with them non-comformity is not, as with us, accounted virtuous. In the second place, the Japanese are extremely sensitive to criticism. One of the things which strikes an observer of their social life is a strong reluctance to administer or to accept reproof. Suggestions that a view is mistaken or an action reprehensible must be conveyed discreetly, and if

possible by indirect methods. Feelings are delicate and must not be wounded. It was to be expected, therefore, that open censure of Japan's conduct would provoke an angry reaction; and some indeed think that there was a moment at the end of 1931 when the whole nation, its pride injured by universal condemnation, might easily have been led to take arms against the world. This can never be proved, but certainly the mood was ugly when there was talk of applying sanctions to Japan; and though excitement had subsided by the time the Lytton Report was published, it is probable that it could easily be fanned into flame again.

There is a third reason why the Japanese public were quite genuinely taken aback when they found that the Report was not entirely favourable to them, and contained some admonitory passages. They have, as a people, a curious habit of assuming that ordinary rules do not apply to them. How often one hears one's friends exclaim, "Ah! but in Japan it is different." They are not alone in this kind of delusion, which, in the West, often takes the form of supposing that the Almighty confers special immunity upon a given racial or political group; but, perhaps because Japan has only lately entered the modern world, cynicism has not fully developed within her frontiers, and the delusion seems to be more common. Their best friends are bound to admit that the Japanese sometimes allow themselves to think that they occupy a "special position," which nobody but a Japanese can understand, not only in Manchuria, but in the universe. This characteristic was once satirised by a humorous foreigner who observed, on learning of the arrival of Professor Einstein in Japan, that the Japanese would give him a noble welcome, would overwhelm him with praise and kindness, but would be careful to point out that the theory of relativity did not necessarily apply to the Far East. One should not exaggerate of course; but one can detect something of this attitude in the reactions of Japan to the Lytton Report. It seemed wrong that the Commission should judge

Japanese actions by Western standards. In Europe and America, may be, unpleasant results followed from hazardous policies, but that was not necessarily true in the Far East. This peculiarity of mind seems to have been detected by the writers of the Report, who, in one passage, remark that " even in Japan appropriate means must be found for the attainment of every end."

Given the characteristics just outlined, and a spontaneous patriotism like that of the Japanese, which, even without assiduous cultivation, closes up the ranks, and forms a united front against what is deemed interference from without, one can scarcely be surprised that opinion at this juncture seemed as firm as it was unanimous. Nor is there at the time of writing any indication that it has weakened. In their determination to adhere to their declared attitude, the Japanese Government have still as strong a backing as any Government could desire. Yet it is difficult to believe that such unanimity of expression corresponds to an equal unanimity of thought. There was no such complete agreement a year or so ago, and mortal men are not given to such unison. Somewhere, surely, there is the beginning of a rift ? One must confess that it is hard to find. But there are some small indications. The Lytton Report, for all the abuse that was heaped upon it, has now been carefully read, not only by those whose business it was to refute it, but by the general public. After its appearance other books on the Manchurian question went out of favour, and translations of the Report were bought in fair numbers. When the first violence of the press attack died down, careful criticisms began to appear, and many readers became more willing to admit that, though not without faults, it was a unique document, a serious attempt to present an honest judgment on a complex political issue. Thoughtful Japanese of the educated classes, though they might take objection to many passages, conceded that it was a valuable historical study. More than this one cannot say, but it is enough to allow one to hope that with the lapse of time,

something of the spirit of the Report will find acceptance in Japan.

II. The Reasons for the Japanese Attitude

It must be admitted that this is not very encouraging. It does not hold out much prospect of an early change of mind, even assuming the Report to be faultless and the League above reproach. Unhappily there is a good deal to be said if not in justification, at least in excuse, of the Japanese attitude. The Japanese have said it often enough, it is true, but they have said it as a rule rather unskilfully. They have defended their actions with arguments of such doubtful validity that they have succeeded in giving the impression that they have no case at all. It may, therefore, be worth while to examine some of their contentions afresh.

Taking first their objections to the Report as a diplomatic document, objections which can for the most part be summarily dismissed, we find that the points that gave most offence were the assertions that the military measures taken in September 1931 exceeded the legitimate needs of self-defence and the assertion that Manchukuo was, in fact, a puppet State formed by the Japanese themselves and not by the people of Manchuria. These assertions, whatever dialectic may be used in their rebuttal, contain truth enough to make them highly unpalatable to the Japanese who, having chosen to base their case upon a fiction, are—such is human weakness—indignant in inverse proportion to their innocence. But they have other and more legitimate criticisms to level at the Report. They contend that it displays throughout a bias in favour of China. It is difficult to prove this contention by citing from the text. Indeed, the Report shows traces of an effort, almost a strain, on the part of the writers, to be fair and sympathetic to both sides. But even an unprejudiced non-Japanese reader feels an underlying note of disapproval of Japan, a preference for China. Perhaps this discrimination is due to some funda-

mental harmony of temperament between Chinese and Europeans; perhaps it arose from irritation caused by silly spying and restraints from which the Commission suffered at the hands of Japanese in Manchuria; or, again, it may be that the Chinese made a better impression because even in their mendacity they are more frank and open than the Japanese. But anyhow the difference is there. Another objection to the Report, raised by thoughtful Japanese who are in a position to judge, is that its economic sections, and in particular its study of the boycott, are inadequate. This criticism can probably be sustained. The parts in question do not come up to the standard of the remainder, and they contain some judgments which it would be difficult to support.

But the true reasons for the hostile reception of the Report lie deeper than the surface of its pages. They are to be found in a disharmony between current sentiment in Japan and the principles for which the League stands. The difference can perhaps be most conveniently expressed by putting into the mouth of an imaginary Japanese of average culture and information an explanation of his country's policy. He would say something of this kind:

The League was formed after the European war by fatigued nations wishing for peace. Having parcelled out so much of the world as was at their disposal, they desired to preserve their strength and their property. Their ideal was the maintenance of the *status quo*, the strong Powers to remain strong, the weak to remain weak. We believe that fear and exhaustion dictated this policy as much as genuine desire for world peace, and we cannot accept the doctrine that a young and vigorous nation like ourselves must remain content with what it possesses, in a state of arrested growth. The League professes that, if we will bring our troubles to it, they will be solved. We do not believe that they have either the knowledge or the power to settle our problems. We have seen little or nothing in recent years to encourage us to put our trust in the League, a body which has not been able to solve any of the major political or economic problems of Europe, and yet attempts to teach us how to conduct our affairs in the Orient. We dislike this assumption of superior knowledge, this moral arrogance of Western peoples. We dislike in particular the credulity with which the League listens to the hypo-

critical professions of the Chinese, who flatter them by subscribing in words to their ideals, but not in deeds. We dislike being preached at by the League, by Mr. Stimson, by Ministers of small States, by professors of obscure universities, by illiterate journalists, by amateur diplomats, not because we think we are faultless, but because we simply do not believe that the West has reformed. We cannot believe in such a rapid change of heart. We cannot believe in the pacific spirit of a Europe which does not disarm in spite of its promises under treaty, or in the idealism of an America where corruption and crime are rampant and where, we think, under the cloak of sentiment warlike intentions are concealed. We cannot be expected to prize the friendship of nations which, when we strive to join their society, exclude our people and our goods.

It would be easy to take the edge off such arguments, and it must be granted that our imaginary Japanese, having brandished these heavy weapons, would be hard put to it to defend the charge that his own Government has, to say the least of it, adopted an extremely convenient interpretation of the Nine Power Treaty and the Kellogg Pact. But in these matters sentiment counts as much as logic, and it is the unpleasant truth that the League of Nations, while demonstrating with convincing clearness the danger to peace involved in the Manchurian dispute, has done little to promote peaceful feelings between the parties. Perhaps this was inevitable. Still, though it is the purpose of this article to discuss, not the methods of the League, but Japan's reactions to Geneva, it may be permissible to observe that its intervention in the Sino-Japanese dispute does raise some doubts as to the adequacy of what is called peace machinery. There seems to be some danger that this machinery, once set in motion, may at times function in a way neither contemplated nor desired by those who press the button. There was a hint of this danger when the League set a date for the withdrawal of Japanese troops in November, 1931. The word "machinery" has some unfortunate implications. Peace-making is a delicate operation, rather hard to conduct on mechanical lines. It would be a tragedy if, through the rigidity of its parts, the appara-

s *should be found suitable only to one kind of process,* d incapable of adaptation.

But, if the League was set a most difficult task, if the two putants presented the most refractory material possible, l if the League's methods are open to some criticism, it nains true that the League stands for peace, for concilia-n, for collective responsibility. And these are things ich, though they may approve them, are not vital issues he Japanese Government of to-day. Neither the Govern-nt nor the people, it is to be feared, have travelled far the road to internationalism, nor have they any strong aste for war. It is reported that Lord Lytton, in an eal to the Japanese Minister of Foreign Affairs, pointed that, if the Japanese felt strongly about Manchuria ause it had cost them much blood and treasure, Euro-n peoples felt even more strongly about the League, ch was all they had gained from the Great War in which y had lost millions of lives and untold gold. Alas! s argument was not likely to appeal to Japan, for she not had the bitter experiences of Europe, and warfare l seems to her people an adventure and not a tragedy. e fact is that international concepts, which are new even he West, have not yet penetrated the national under-nding in Japan. As a people the Japanese have in these ters reached a stage of development analogous to that England in 1900, and there are very strong resemblances ween their attitude to-day and the temper of the English ple at the outbreak of the South African war. There he same heedlessness of the world's disapproval, the e patriotic fervour, and even the same kind of military blem to face in the revolt of mobile forces scattered wide r a difficult country. The difference, an important one, hat in Japan at present there is no influential body of ral, critical opinion. There is liberal thought, there is n subversive thought of many colours, but it is inert, it ly gets translated into open speech, much less into action. is absence of overt criticism is, of course, due in part to

the fear of terrorist activities which, though they are for the moment in suspense, might easily break out again; but in part also to the genuine solidarity which has been referred to above.

III. The Prospects of a Change

OPINION will change; but it is doubtful whether it will change soon enough to satisfy those who hope that internal dissension in Japan will in the near future lead to the triumph of new ideas and the reversal of present policies. It has been suggested that, as enthusiasm for overseas adventure wanes and as domestic problems become more urgent, the Japanese Government will grow less intractable in foreign policy, and that this process will be accelerated as it becomes clear that the Manchurian enterprise is not justified by results. There is a good deal to be said for this point of view, but it is not quite certain that things will turn out so badly as it supposes, or if they do that adversity will have the anticipated sequels.

Taking first the economic position of Japan, it is true that she is in difficulties, but it may be argued that she is no worse off than other countries for the time being. In some ways indeed she is better off, for in the second half of 1932 she enjoyed a remarkable revival in foreign trade. Her exporters gained a great advantage from the depreciation of the yen in foreign exchange, which at the same time stimulated domestic manufacturers. The immediate outlook was fairly bright, and it is possible that an optimistic mood thus created contributed to stiffening the attitude of Japan towards the League. Budget prospects revealed later in the year were not very cheering. What with expenditure upon Manchuria, the demands of the army and navy for "replenishment," the cost of agrarian relief and other considerable items, the Government were obliged to ask for authority to meet budget deficits by borrowing up to 1,700 million yen between September,

1932, and March, 1934. Still, other countries had even greater deficits, and anyhow it was arguable that the inflation caused by large bond issues would in some ways be beneficial; so that, since foreign trade continued to boom, agrarian distress had moderated and unemployment was not of serious dimensions, there seemed to be no special cause for anxiety. It would not be exact to say that there were no misgivings. The yen exchange was with difficulty maintained at two-fifths of its par value. Foreign countries threatened with an influx of Japanese goods at low prices began to consider protective measures. Wholesale and retail prices rose while wages kept stationary. And some financial authorities expressed doubts as to the healthiness of the trade boom and the wisdom of the Government's finance. But the situation was not thought critical, and though it is difficult in these days to see more than a year or so ahead, one may say that Japan's economic position is uncomfortable but not insecure. If there is any kind of world recovery she will be among the first to profit. If not, she can rub along pretty well for a time. Those who think that she could be quickly brought to her knees by economic pressure are surely mistaken.

In domestic politics there is great confusion and even the most experienced observers hesitate to predict what will come out of it. But it would be wrong to regard this confusion as a sign of weakness. It is rather a symptom of vitality, of the same abundance of energy as has produced the vigorous if rash enterprises in foreign policy of the last year. There are some signs pointing to a restoration of party government, perhaps after another experiment in coalition and without any extreme movement to right or left. But this is mere conjecture. For the moment the military are still dominant. They are not all-powerful, and they are a little more openly criticised than they were six months ago; but it does not follow that, if they fail to produce results in Manchuria, they will at once fall in public esteem. For one thing, their popularity does not

depend entirely upon their success in soldiering, but derives in part from their advocacy of certain doctrines, somewhat ill-defined but very palatable to those who are aggrieved by the corruption of party politics and the abuses of capitalism. Further, there is a possibility that, should progress in Manchuria be disappointing, the military leaders may go further afield and tempt fortune in Jehol and North China. Even as these lines are being penned there comes news of a clash between Chinese and Japanese troops at Shanhaikwan. Though this incident may have arisen from excitement caused by New Year feasts and not from policy, there is always a danger that the Japanese commanders may consider themselves obliged to extend their operations. In such circumstances they would almost certainly carry public opinion with them, at least for some time. Their eventual loss of political power, however, seems assured, and it is on the cards that it may follow a split among themselves.

If it is difficult to predict the course of events in Japan, still more is it difficult to foresee what will happen in Manchuria. There has been a slight improvement in the chaotic conditions of six months ago. Certain regions have been cleared of "professional" bandits, and trains are now running between Harbin and Manchuli. The Japanese military do not expect to suppress the "professional" bandits for many years, but they think that they will be able to dispose of the bandits who are in reality insurgent Chinese troops within a year or two. The cost of these and kindred operations in Manchuria is about 20 million yen a month. It is heavy but not crippling. As for the administration of "Manchukuo," though nothing remarkable has been achieved it must be credited with some improvements. Some of the rather recalcitrant and undesirable Japanese personnel, advisers and officials of various kinds, have been replaced by men of a better type, and the appointment of General Muto as Commander-in-Chief of Japanese forces in Manchuria, Governor-General

of Kwantung and Ambassador to Manchukuo puts the task of co-ordinating Japanese activities into the hands of a high-minded and experienced officer of the old school. The finances of Manchukuo, though they cannot but be shaky, have been taken in hand, and it is a good sign that about one-third of the notes of former governments have been redeemed and replaced by new notes issued by the central bank.

As to the economic advantage which Japan hoped to obtain from Manchuria, it shows little sign of materialising at present, but it is perhaps unfair to expect much at this early stage. An economic bloc consisting of the Japanese Empire and Manchukuo is freely suggested, but there are serious obstacles to its formation. Proposals to establish mills and factories in Manchuria have evoked opposition from industrialists in Japan. The prospect of supplies of cheap coal and iron from Fushun and Anshan, far from creating enthusiasm, has upset the Japanese coal-owners and iron-masters. The attractive theory that Manchuria would supply Japan with foodstuffs in return for manufactured goods does not seem to work in practice, for the purchasing power of Manchuria is limited and Japan has no particular need of foodstuffs. In fact at present it is Japan which is sending wheat flour to Manchuria.

Thus the prospect of economic benefit seems rather distant. But it is not impossible, and there are respectable authorities who take an optimistic view. Thus, in a recent issue of a monthly review of international affairs called *Gaiko Jiho*, a prominent business man, whose firm has long experience of trade in Manchuria and whose views command respect, states that in his belief the industrial progress of the country will be "prodigious," and that it will open a safe and valuable market rescued from "the ravages of China's internal disorders." Altogether, therefore, the result of the Manchurian enterprise is uncertain; and it seems probable that it will continue for some time without any marked development, neither a conspicuous

success nor a conspicuous failure. If this is correct, then the disappointment predicted for Japan may not be so acute as to cause strong popular opposition to the present policy of the Government on the Asiatic mainland, especially as that policy is based not only on economic but also on strategic grounds.

It seems, then, that the League of Nations will not be able to persuade the Japanese that their continental policy is doomed to failure. In their present frame of mind they are not open to such arguments. Few of them would deny that such problems are of appalling difficulty, few of them but think that there are serious dangers ahead. But most of them feel that they have now gone too far to turn back. It has been freely suggested abroad that the Japanese Government are attempting to bluff the League, and dare not in reality face the hostility of the whole world. But this is far from certain. They have incurred that hostility already; and to call the bluff without carefully counting the cost would be, to say the least of it, to incur a grave responsibility. Japan to-day is in a desperate mood, inclined to gamble for large stakes. Her army and navy are very strong, her geographical position extremely favourable for defence, and though she very clearly does not want war, she is prepared for it. It is just as well not to blink this disagreeable fact.

Assuming that Japan is at present deaf to the warnings of the League and of statesmen who see in her policy a danger to world peace, what are the prospects of a change in that policy? From what has been written above it does not seem likely that there will be an early revulsion of feeling among the Japanese people. The outlook is not very cheerful. If they are now inclined to celebrate their warlike prowess, to talk bombastically of their mission in Asia, to claim that they have released from tyranny oppressed millions in Manchuria, it is not consoling, but perhaps it is salutary to reflect that not so very long ago public opinion in England was nourished on watch-words

like the "white man's burden," "splendid isolation," "roll them in mud and blood," "business as usual," and other formulæ, some of which to modern ears sound like echoes from a barbarous antiquity. To an Englishman who was adult in the early years of this century there is something uncomfortably familiar in the popular sentiment of Japan to-day.

Yet the Japanese are not, any more than we were then, a predatory, pugnacious race. They are a gentle, kindly people, rather given to dramatising themselves, but essentially devoted to the arts of peace. If, for our bitter experience, we are wiser and better than we were then and the Japanese are now, it is example rather than precept which will encourage the growth among them of the liberal principles in which we put our trust.

Japan.
January 4, 1933.

NOTE.—For THE ROUND TABLE view of policy, see THE ROUND TABLE, No. 89, December 1932, p. 64.—ED.

THE FUTURE GOVERNMENT OF INDIA

I. The First Two Round Table Conferences

NEWSPAPER comment on the third session of the Indian Round Table Conference, which ended on Christmas Eve, gives clear proof of the extreme state of bewilderment into which its proceedings have thrown observers, even shrewd and knowledgeable observers. The course of events at both the first and second sessions was reasonably simple and intelligible. At the first, the early and unanimous decision of the Indian delegates—both from the Indian States and from British India—in favour of an all-India federation so altered the whole character and basis of the discussions, that the British Liberal delegates and those of the other British political parties were able to advance beyond the Simon Report to a position in which they could agree to a large measure of responsibility vesting in the central government—with minimum safeguards in certain vital matters—when once the all-India federation should have become a reality. This decision evoked an immediate, and, on the whole, a distinctly satisfactory response from all the British Indian delegates who, in their turn, now found themselves able to view with much greater sympathy than formerly their British colleagues' arguments in favour of temporary safeguards in certain matters. The establishment of safeguards was agreed upon in principle and the details were left to be worked out later. Thus the first session ended with the Indian delegates committed to the further discussion of a political constitution for their country based

ll-India federation exercising responsible powers with limitations in the directions already indicated.

second session of the Conference was meant to the details in the great picture outlined above. ;st these " details " were the exact terms on which inces were to enter the federation, the electoral , the distribution of seats in the central and pro- legislatures, and the whole vast question of " safe- " together with many other matters of lesser ance. But, by the time the second session met in n, the communal question, and particularly of the Hindu-Moslem question, had come to over- r the whole scene. Then, too, the representation gress, in the person of Mr. Gandhi, brought into the ence a more extreme element than any that had been at the first session, and was thus not calculated to dispatch or harmony in the conduct of the general ss, or, indeed, in the negotiations between Hindus oslems. Lastly, our own domestic difficulties at ie will also be remembered.

as not then surprising that the second session of onference proved almost barren of result. In any vhat was happening was clear. The differences n Hindus and Moslems on the one hand, and n the representatives of the Indian States and of India on the other, had clearly set up for the time in insuperable barrier in the way of the achievement ement between the delegates on any point of major ance. Thus, the most that the Prime Minister io, when he prorogued the Conference in December vas to reaffirm the statement he made at the end of t session, that the view of His Majesty's Govern- vas that responsibility for the government of India be placed upon legislatures, central and provincial, ich temporary provisions as might be necessary to :ee the observance of certain obligations and the of minorities. Thus, the outlook for the all-India

federation had not improved as a result of the second session of the Conference.

Nevertheless, in spite of this undoubted set-back, neither the British Government nor the majority of the Indian delegates gave up either hope or work. Some of the leading Indians were invited to become members of a consultative committee to work with the Viceroy during the interval between the second and the third sessions of the Conference, while the Lothian, Davidson and Percy Committees went out to India to enquire into, and report on, the future franchise and certain matters connected with the future federal finances. Unfortunately, the Consultative Committee failed to accomplish any very important results, again owing, in the main, to the continuance of the impasse in the matter of inter-communal claims and safeguards. Further, the statement made last June in Parliament by Sir Samuel Hoare, that there would be no further meeting of the Round Table Conference, considerably depressed moderate opinion in India. The most striking and important developments of this period, between the second and third sessions of the Conference, were the decision of His Majesty's Government with regard to the allocation of seats in the provincial legislatures among the various communities, and the subsequent modification of this decision, so far as it affected the caste Hindus and the Depressed Classes, as a result of the agreement between Mr. Gandhi and certain Hindu leaders and the leader of the Depressed Classes, Dr. Ambedkar.

Thus, the record of these months, in so far as it is concerned with the working out of the Round Table Conference policy, is a chequered one. It is even more chequered so far as political developments in India during the same period are concerned; but their story has already been told in the ROUND TABLE and need not be repeated here. We are faced once more with the very serious position that Congress and certain allied sections of organised political opinion remain uncompromisingly

hostile to the Round Table Conference, and the policy for which it stands. The British Labour party, moreover, was not represented at the third session and is thus not committed to any of its decisions.

II. The Task of the Third Conference

IT will be clear from what has already been said that the concluding session of the Round Table Conference opened in circumstances far from encouraging, whether one considered the general political situation in India or the scope and character of the tasks confronting the Conference. What were these tasks?

Omitting the more or less secondary or peripheral subjects, they, broadly speaking, consisted of two main problems; that of safeguards—both of British responsibilities and interests and of the interests of the minority communities—and the question of the conditions on which the Princes were to enter the federation. Both these questions are really groups of questions, and all of them present formidable difficulties. The safeguards necessary to ensure the fulfilment of British responsibilities, for example, are at least five-fold. They relate to defence, foreign relations, finance, commercial legislation and discrimination, and the reserve powers to be vested in the Governor-General and the provincial Governors. The minority safeguards, as now defined by one or other of the parties to the dispute, include such thorny subjects as the division of seats in the central legislature, and the location of residuary powers—the latter expression is of course only a euphemistic way of stating the question of whether the fundamental provisions of the constitutions of the provinces are to be as the Moslems or as the Hindus wish. The Hindus naturally want residuary powers to vest in the centre; the Moslems would place them in the provinces, because the majority in the central legislature

will always be Hindu, or ought to be if the seats are allocated on a population basis. The reason for this last qualification we shall see later.

As between the Princes and British India, the most formidable of the problems still remained unsolved. It had been decided at the first session of the Conference that certain administrative subjects should be federal "for legislation and policy." But, obviously, immense importance attaches to the exact scope and meaning of this phrase, and it was already apparent that British Indian opinion tended to give it a much wider application than did the Princes. Then, too, in spite of the valuable work of Lord Peel's subcommittee during the second session of the Conference, and of the Davidson Committee afterwards, it could not be said that more than the fringe of the immense subject of federal finance had been touched.

The difficulties confronting the delegates when the session opened last November, then, are obvious. Virtually, the really decisive work so far as these fundamental particulars are concerned had still to be done. We now pass to the proceedings of the Conference.

What we have called the secondary or peripheral subjects, namely, the franchise, the supreme court, and Anglo-Indian education, were quickly disposed of without any very marked differences of opinion. The Lothian Committee's main recommendations were accepted, subject to such modifications of detail as might prove necessary. A particularly interesting feature of the Conference's decisions on the franchise question was their agreement that women who satisfied the property qualifications prescribed for men should have a vote. The discussions about the supreme court evoked virtually as many opinions as there were Indian delegates and, in the upshot, the decision on this matter, as on so many others, has been left to His Majesty's Government.

A survey of the achievements of the Conference in connection with the really fundamental questions reveals

a mixed record, favourable in some ways, colourless favourable in others. Fortunately, inter-communal rs came up for discussion only incidentally, and there therefore, none of the deadlocks which held up work previous session. The subcommittee on the distri-ı of legislative powers, for example, had to discuss ɛxed question of the location of residuary powers, 'as unable to come to any agreement. This matter ccordingly have also to be left to His Majesty's nment.

, of course, the failure to deal with these knotty of inter-communal strife, which gave rise to so trouble at the previous session, simply means that oo are now left to the British Government to settle, ›me indication of the scope and difficulty of the most tant of them may be given. Consider, for instance, mposition of the new legislatures and the distribution s between the different communities. The agreement en Mr. Gandhi and Dr. Ambedkar has left the 'm of the future provincial legislatures in what looks hopeless position. In two of the most important ıces of India, namely, the Punjab and Bengal, the Hindus are now left with only one seat in five—from an odd seat or two they may win in special tuencies. In other provinces they are not so badly ıt even there the new allocation, if it ever comes into ion, will provide sources of intolerable discontent ɛ caste Hindu. In the case of the federal legislature atter is even more serious from his point of view. s examine the prospects in the popular chamber of ntral legislature. We may take it as an axiom that [oslems will stick to their demand for 33⅓ per cent. seats, and even that they will get them. They will ıly not compromise on this point. In that case, Mr. Gandhi's Depressed Classes agreement, 18 per of the seats will go to these classes. The Princes ıve claimed 40 per cent. of the seats though they

are unlikely to get so large a percentage—British Indian opinion is united on that point. But, even assuming that they take the very lowest percentage within the bounds of practical politics, namely, 25 per cent.—we shall have already allocated 76½ per cent. of the total. Yet, so far, we have not considered the representation of Europeans, Sikhs and Anglo-Indians, labour, and one or two other interests. Again let us assume the lowest possible figure, say 6 per cent. of the total for all these interests. Once more, the great Hindu majority community is left with one seat in five. The Hindus cannot, of course, agree to this figure, any more than they will agree to let the Gandhi agreement for the provinces be brought into operation. Already there is a storm of opposition from their side blowing up, and it will reach gale force before long. Here, then, we have a mighty practical problem left over for settlement.

The Safeguards

Let us now examine the highly contentious subjects that were discussed at the Conference, beginning with those issues which primarily concern Great Britain and British India. We refer, of course, to the subjects compendiously described as "safeguards." We have already enumerated the five groups into which they fall. In the matter of defence and foreign relations the field of dispute was nothing like as wide as the ground covered by the subjects under discussion. The most important cause of dissension between British and Indian representatives arose out of the question of the Indianisation of the commissioned ranks of the Indian army. A general desire was expressed by the Indian delegates to have a comprehensive plan of Indianisation laid down; but His Majesty's Government adhered to the view that the pace of Indianisation must continue to be regulated by stages, and it was pointed out that there is a programme of Indianisation already in existence which is much more extensive than any previous programme, and capable of still greater development in future. It was agreed that army expenditure should not

be at the mercy of a vote of the legislature. The position of the Defence Member under the new constitution led to a good deal of discussion. Some of the Indian delegates suggested that this Member should be chosen from the members of the legislature, and that although he would not be "responsible" to the legislature, he should be treated as a member of the federal Cabinet, and, presumably, accept the implications of joint responsibility. His Majesty's Government, however, maintained their previous opinion that the Defence Member should be chosen by the Governor-General at his unfettered discretion, though they agreed that joint discussion between him and the leading federal Ministers should become a regular practice in working the new constitution. It is clear, therefore, that even in this matter, there are points of difference, by no means unimportant, between British and Indian opinion, which have not yet been resolved.

Important questions too, in which the latent germs of somewhat serious disagreement between the British delegates and even moderate opinion in British India had already been detected, were raised by the discussion of the safeguards contained in the special powers and responsibilities which are to be vested in the Governor-General and the Governors. The Conference approached this matter on two assumptions, (1) that executive power in India (as in the United Kingdom and the Dominions) will rest with the Crown, represented at the centre by the Governor-General, and in the provinces by the Governors. (2) That, except where otherwise provided, the Governor-General and Governors will be guided by the advice of their respective Ministers, and that the executive will depend, so far as legislative enactments and supply are concerned, upon the consent of the legislature. The crux of the group of problems raised in the course of this discussion is, of course, contained in the words "except when otherwise provided," which appear in the second of the two assumptions just mentioned, for these words raise in the most direct way possible the question of the nature

and extent of the responsibilities which are to be conferred upon the Governor-General and the Governors, and of the special powers which those officers must necessarily possess to enable them to discharge these responsibilities. As regards the Governor-General, it was decided that the ecclesiastical department should be added to the two "reserved" departments previously agreed upon, namely, defence and external affairs. For the administration of these departments, the responsibility should be the Governor-General's, and his alone, although the Conference regarded it as desirable that he and his personal advisers in these departments should take the fullest opportunities possible of consultation with the federal Cabinet Ministers.

This agreement was reached comparatively easily, although some of the Indian delegates would have liked a precise definition of all the matters that are to be treated as coming within the scope of the "reserved" departments, so that certain activities, which these departments would otherwise control, might be left to responsible Ministers. But a still more difficult problem presented itself when the Conference considered the question of the Governor-General's relations with Ministers in charge of departments for whose administration they would be responsible to the legislature. In what circumstances should the Governor-General be empowered to act against the advice of these Ministers? The answer to this question will be found in the unanimous agreement of the Conference that the Governor-General should have a "special responsibility" for certain clearly indicated general purposes, to secure which he is to exercise the statutory powers conferred upon him, in accordance with the directions contained in his Instrument of Instructions. The latter will direct him to follow his Ministers' advice unless to do so would be inconsistent with any of his "special responsibilities." It was further agreed that the Governor-General should have a special responsibility with regard to the following matters in the federal sphere,

(1) The prevention of grave menace to the peace or tranquillity

of India or any part thereof. (2) The protection of minorities. (3) The rights of the public services. (4) The administration of the "reserved" departments. (5) The rights of the Indian States. (6) The prevention of commercial discrimination.

Further, since the Governor-General's activities in the reserved departments, or in the discharge of his special responsibilities might bring him into conflict with the legislature, he will be vested with powers to override any hostile action on its part in respect of these activities. Lastly, to meet temporary emergencies, he will be vested with powers analogous to the present power of making ordinances. In the provinces, corresponding powers are to be conferred on the Governors. The latters' sphere of operation will naturally be their own provinces, and there will, of course, be no reserved departments in the provincial Administrations.

Now, anybody, who has followed the trend of Indian political aspirations during the past few years, will realise immediately how far-reaching these particular safeguards will appear to many important sections of Indian opinion. Weighty opposition to some of them was, in fact, forthcoming at the Conference. Opposition to the safeguards with regard to financial and commercial discrimination was still more sustained and determined. Indeed, in some quarters, there were fears, happily unfounded, that they might even lead to a deadlock. The reason for the insistence of His Majesty's Government on the financial safeguards is clear. Recent years have shown how sensitive a thing is India's credit in the world money market, and in the present world economic upheaval, the sudden and complete disappearance of British control over the public finances of India would certainly dry up the springs of credit for India and lead to a catastrophic fall in the value of Indian securities. Some of the delegates had an interview on this subject with the Governor of the Bank of England, and, although no account of it has been made public, it is believed that he stressed the above view. Certainly most of the delegates were powerfully

influenced by what the Governor said, and althc
section of Indian opinion at the Conference want
federal government to be given effective contro
Indian finance, a demand which was pressed to tl
the view, nevertheless, prevailed that the Governor-C
should be vested with "a special responsibility fo
guarding the financial stability and credit of the feder
This would enable him in case of need to act cc
to the advice of his Finance Minister. The Con
further recommended the creation at the earliest p
date of a Reserve Bank, free from political influe
be entrusted with the management of currenc
exchange. The equally important subject of comı
discrimination led to an equally stubborn conflict of c
between a section of the Indian delegates and the
the Conference. It was generally agreed that discrim
by legislative action should be prevented by s
provisions in the constitution, but there was consic
discussion about the question of discrimination by ac
trative action, the dissenting section of the Indian de
maintaining that it was undesirable to try to provide
this as it would undoubtedly fetter the hands
responsible Minister or Ministers for the purp
important action that it might be advisable for tl
take. Yet, to have no provision against adminis
discrimination would render the other safeguard
nugatory, and so to the already ponderous list
Governor-General's "special responsibilities" the
now been added one to cover the subject of comı
discrimination. A further attempt was made a
stage to limit the Governor-General's protective
to companies registered in India, but this was abaı
after the practical and legal difficulties had been exp
It was, however, agreed that there should be reci
in the matter of commercial discrimination, anc
Indians should have the same rights in the United Ki
as British nationals will have in India. Separate agre
will, no doubt, be negotiated with the other Domin

The Task of the Third Conference

The Attitude of the Princes

Such, in brief outline, was the work accomplished at the Conference with regard to the " safeguards " which His Majesty's Government claim to be the minimum necessary for the proper discharge of their varied obligations to the people of India. It remains to consider what progress was made in the negotiations between the Princes and British India. These were mainly concerned with the two great groups of questions arising out of the conditions on which the Princes are to enter the federation. The form of the States' Instruments of Accession gave no great trouble. It was agreed by their representatives that an agreement should be made by each State individually with the Crown, and that these agreements could not be concluded until after the federal constitution had been approved by Parliament. The provisions of the Act with regard to federation would not take effect immediately but only after a specified period, if and when so many States have acceded. Lastly, the States would transfer to the Crown only the necessary powers and jurisdiction required by the express provisions of the Act, and they insisted that the agreements, or Instruments of Accession, should expressly exclude from the purview of the federation all powers and jurisdiction touching the federal subjects, in whole or in part, which individual States would not agree to transfer to the federation. In this connection, the report of the sub-committee on the distribution of legislative powers should be studied. For at its meetings the States' representatives made it quite clear that in respect of some, at any rate, of the subjects that are classified as " federal for policy and legislation," the States did not mean to give a free hand to the federal legislature in the matter of legislation affecting the internal affairs of the States. On the contrary, they meant to surrender no jot or tittle of authority beyond what was laid down in black and white in the Act, and the following example will show how strictly the bounds are likely to be

drawn in this direction. Railways have been declared federal for the purpose of legislation and policy, but the States suggest that, as far as they are concerned, these words should be taken as meaning that the federal legislature should have jurisdiction only over such things as rates, safety devices, and interchangeability of traffic.

Discussion of the thorny problem of federal finance took up a great deal of time throughout the session, yet at the end, it was difficult to say that anything final had been settled in respect of the contributions of the States to the federal finances. Certainly they will submit to no direct taxation, and the whole question of their contributions, together with the allied question of the privileges that certain States possess in respect, for instance, of customs, or of immunities from existing contributions, will have to be still further considered, presumably by another special committee.

On the States' side of the problem, too, then it is clear that many matters of literally fundamental importance have been left undecided.

Much has had to be omitted from this survey, but it is clear that, until an agreement has been come to with the Princes—and hitherto their peculiar difficulties have prevented one—no date can possibly be set for the inauguration of the all-India federation. Yet, until it is inaugurated, it is difficult to see how the measure of responsibility at the centre, which has been promised on condition that federation is agreed upon, can be granted. It is known, however, that only a few sections of Indian opinion will accept a constitution which does not immediately bestow a large measure of responsibility at the centre. In the light of this situation, the appearance of the White Paper will be awaited with the utmost interest.

Matters at any rate will soon be brought to a head, for the British Government has made known its intention of submitting a draft constitution to a joint committee of Lords and Commons in the coming spring.

THE UNITED STATES: THE NEW DEAL

I

1933—the Year of the New Deal. We enter it from an even lower level than upon 1932. The business index at the end of 1931 stood at −36 2 per cent. At the end of 1932 it stood at −45 5 per cent. Industrial stocks started 1932 at $74·62. They begin 1933 at $59 93. Rails are $25·80, as against $33 11 a year ago. All commodities are off sharply, many at new historical " lows." The bond average did not fare so badly, $77·74 on December 31, 1932, as against $77·78 a year before. It nearly held its own. But this does not mean that many millions of dollars in individual issues have not gone into default, thus further decreasing purchasing power and giving another whirl to the vicious circle.

So we start tearing the leaves from the new calendar. And before the first week is torn, Calvin Coolidge goes back to the tiny hamlet of Plymouth, Vermont, to a grave by six generations of his kindred on a hail-swept hillside. Mrs. Coolidge said he had been worrying about the depression. The doctors said the presidency had imposed on him a strain beyond all human endurance. Anyway, another link with the golden age has been severed. Who can evoke now the emotions of that remote antiquity before 1929? It is about as real as the empire of the Romanoffs. The holders of its favorite securities go about like grand dukes, only less romantic. The market for their memoirs is not so good. Now that we are so far and so helplessly advanced in the new era, we want to forget about the New Era. Perhaps it is a good sign.

It is now possible to characterize unemotionally th last four years and their next few successors as the period post-war rectification of the price structure. Under tl cold terminology, young men in colleges will read abc these disastrous years and yawn and crave excitement a novelty. Commodity prices are very dull—until they up the whole social mechanism.

Some of us remember 1914. The war ended at the Mar in September. There would be doubtless more moveme of troops and fleets, but the boys would be home at Chri mas. The depression has been like that. It ended wh we swung into 1930 with the Dow-Jones industrial averag at 248 and prosperity right around the corner. It end again early in 1931 when that venerable and taciturn sa the late Mr. George F. Baker, said that it was no time sell short. But now we recognize the war of attritic The fifty-one and a half months that saw us out of t trenches will certainly not be enough (reckoning fro September 1929) to get us back to even moderate prosperit We shall not be back at the factories by next Christm And so far as this country is concerned the ravages of t Depression will be far greater than those of the war.

To be sure, the last six months have given us a respi from our precipitate descent. In some ways we have gain a little ground. Whatever the permanence of the gain we have caught enough breath to survey the landscap The forces in whose grip we have been caught seem, if less dreadful, perhaps a little less mysterious. And whi the direst consequences have not been escaped or show to be avoidable, it is generally agreed that we must endeav to reorganize society on something like the present pri structure rather than to expect any speedy return to tl old. This means definitely that 1933 will be a rough ye for creditors. Bankruptcies, defaults, extensions, readjus ments—only by these arduous and painful processes can w restore purchasing power and employment. The difficul with price recessions is that they never do themselv

evenly. Raw materials fall faster than finished products. Wages lag on the higher plane. So do state and municipal budgets. Perhaps the saddest plight is the farmer's. He is getting only half 1913 prices for his products and he has to buy a lot of goods at twice 1913 prices. No wonder that Farm Relief is an insistent political problem. No wonder that insurance companies are worried about the defaults in their farm mortgages. No wonder that four hundred farmers in Iowa held up a sheriff's sale which was about to establish a deficiency judgment against an unhappy farm mortgagor. But we shall come back to the farmer. When we talk politics or economics we always come back to him.

II

LET us look in now upon the Capitol at Washington, where the Lame Ducks are endeavoring to emulate the Capitoline Geese. From now until the inauguration of Mr. Roosevelt on March 4, the old Congress (the 72nd) is holding over, working under and often against Mr. Hoover. Mr. Will Rogers, our professional humorist, has commented rather aptly upon our political scene with "a President that's in and has no authority; a President that's out but has no authority; a Senate that's in but has no leader; a House that's in but has been voted out; a budget that both sides are afraid to try to balance; debts that are owed us that will never be paid, and debts that we owe which we keep adding to."

It is not very reassuring—this period of interregnum. It is gratifying to realize that the recent amendment to the federal constitution has abolished our lame duck session and that Mr. Roosevelt's successor will be inaugurated on the twentieth of January, 1937, and not on the fourth of March. Six weeks of futile waiting will be done away with. Under the constitution as originally drawn, and until the ratification of the amendment on January 23, 1933, a

successful candidate for Congress in November of one year (of a presidential election) was not called upon to attend any regular session of Congress until a year from the following month or thirteen months after his election. Even the best of mandates may grow stale in thirteen months. And never was there a better example than the present of the futility of the holdovers who, under a derisive epithet, occupy themselves with legislative projects more likely to be derided than to be passed.

As to the present negative period, Mr. Hoover has made some attempt to reach understandings with his successor. There was a meeting about the foreign debts just before Christmas. Another and more fruitful meeting has occurred latterly between Mr. Roosevelt and Mr. Stimson, the Secretary of State, and still another between Mr. Roosevelt and the President. Mr. Roosevelt has signified his accord with our present policy on Far Eastern questions. With respect to the war debts there will be a meeting in the early spring. Perhaps before the year ends we shall be able to get something done. That would be the greatest step yet.

Meantime the most formidable internal problem is the balancing of the federal budget. And progress toward that goal has been negligible since the election. Everyone agrees there should be economies. Nearly everyone agrees there must be new taxes. A general sales tax appeared to be on the cards until Mr. Roosevelt said he was shocked at being represented as an advocate of such a tax. So it is thought that money must be sought elsewhere. It is unfortunate that our fiscal tradition since 1913 has grown up so strongly about the income tax. Admirably adapted for revenue purposes in the periods of great prosperity which so largely blessed us in the years 1913–1929, it breaks down disastrously in years when incomes are cut, employment is reduced, and capital losses are heavy. It would have been far better if capital gains had never been treated as taxable income or capital losses as deductible. Our

income tax law, in addition to its shortcomings as a revenue measure, has fostered the evils of extreme inflation and extreme deflation.

In 1929 our national income was calculated at eighty-five billion dollars and government costs of all sorts—federal, state, municipal, school districts, etc.—were fourteen billion, or a little over 16 per cent. In 1932 the tide of income had ebbed to fifty billion, and government costs stood still at fourteen billion, or 28 per cent. Cost of government in 1932 will come to $116 per caput, and we are still going backward at the rate of four billion a year. And these budget figures include in income three hundred and twenty-nine million dollars of war debt payments which no one seriously expects will be made.

While the realities of budget balancing and debt adjusting are being shirked, Congressmen are agitating all sorts of inflation projects which will certainly come to nothing but keep business and investment in a state of nervous uncertainty. A much more constructive measure, anti-deflationary in character, and strongly advocated by President Hoover, will probably pass. This is an amendment of the bankruptcy law, looking not primarily to the discharge of the debtor from his obligations as under the conventional Bankruptcy Act, but to relief to be given by the bankruptcy courts to compel the adjustment of debts even against the obstructive tactics of refractory creditors. Under the Act as drawn the debtor may file a petition stating that he is insolvent or unable to meet his debts as they mature, and that he desires to effect a composition or an extension of time to pay his debts. The Court must confirm the debtor's proposal if it is made in good faith and in the interests of all the debtors, and if it includes an equitable and feasible method of liquidation for secured creditors. It is thought that, under such a statute, railroads and other temporarily embarrassed corporations may effect reorganizations which will afford solutions of their difficulties without necessitating enormous volumes of distress liquidation of

merchandise or securities. Individuals encumbered by bank loans or real estate mortgages may gain time under this statute for an adjustment of their affairs. Banks and insurance companies, which are our leading creditors, favor the plan.

We come now to farm relief. The newest form is the so-called allotment plan which is understood to have the approval of the President-elect. It is designed to correct the cruel collapse in the price of farm products, which, as has been said, has been out of all proportion to the collapse in prices of what the farmer buys, so that under existing conditions our great farm population is robbed of its purchasing power. The difficulties of the farmer, it will doubtless be remembered, antedate the depression. In fact, farm relief has been a live political issue ever since the war.* The Federal Farm Board was one of the unhappiest expedients of the Hoover administration. The new Allotment Bill provides that " adjustment certificates " shall be issued to farmers willing to reduce by 20 per cent. their 1933 acreage of wheat, cotton or tobacco, or their 1933 tonnage of hogs. Certificates will then be issued which will entitle their holders to receive, on that percentage of the total crop consumed in the United States, cash payments sufficient to bring prices up to the 1909-1914 average. The funds for the payment of these certificates will be raised through a tax imposed on millers, packers and other processors of the products specified. These processors will of course pass as much of the tax as possible on to the consumer. The Act is frankly experimental and is to be effective for one year only, subject to a further extension of a year by presidential proclamation. It is estimated that it will give to farmers 180 million dollars more than market prices would yield on wheat, 115 million more on cotton, 35 million more on tobacco, 300 million more on hogs.

It will readily be seen that the Bill is in reality a sales tax on farm products imposed on their domestic consumers for

* See The Round Table, vol. xvii, pp. 520-527.

the benefit of their producers, who are thereupon presumed to agree to limit production to such an extent as to raise prices. It is class legislation, but all farm relief legislation must be class legislation. It can be justified, if at all, only by the size of the class, the magnitude of its misfortune and the relation of this misfortune to the general disaster. It is not difficult to criticize the legislation either from the standpoint of economic theory or of political consequences. It is obvious that such concessions to one group will embolden other groups to demand similar concessions and to extort them if possible by political pressure. The American war veteran has already set an example of sturdy unpatriotism in this respect, which is being remarked by his brethren who only serve by standing and paying taxes.

The fate of the allotment measure is uncertain. It will probably not be passed at the present session. Attempts have already been made to amend the Bill to provide assistance to raisers of rice, pea-nuts and butterfat. There is some doubt as to whether Mr. Roosevelt will accept the Bill in its present form. Speaking in Topeka, Kansas, last September, he advocated six " essential specifications " of a " workable plan ": first, " a tariff benefit over world prices which is equivalent to the benefit given by the tariff to industrial products "; second, self-financing provisions; third, abstention " from any mechanism which could cause our European customers to retaliate on the ground of dumping "; fourth, reliance upon " existing agencies " only; fifth, operation on a cooperative basis; and sixth, operation of the plan to depend upon " the support of a reasonable proportion of the producers of the exportable commodity to which it is to apply." None of the six points is observed in the present Bill. But the six points may fare no better than the fourteen which were advanced by one of Mr. Roosevelt's predecessors.

III

IN such times as these the critics of our social and economic structure obtain a ready ear. There are plenty of critics and there is, of course, plenty to criticize. But the most plausible and the most discussed group consists of some two hundred engineers or technicians working under a certain Mr. Howard Scott, who expound the downfall of the present system and its supersession by a " technocracy " of engineers and technologists who, in an incredibly brief space, will give us not only the new Jerusalem, but also the new Pittsburgh and the new Detroit. Technocracy claims for its forbears men like the late Thorstein Veblen, the economist, the late Charles Steinmitz, the famous electrical engineer, and others of high repute. Its thesis is that machinery has displaced men to such an extent that the old " price system " must be regarded as obsolete. The steel output in 1929 was 9.3 times the steel output in 1887. In pig iron production, a man now accomplishes in one hour what it required 650 hours to accomplish in 1882. One man today can produce nine thousand times as many incandescent lamps as in 1914. A new machine has a production of 2,600 cigarettes a minute, against a previous maximum of 600. A New Jersey rayon factory is nearing completion which will work twenty-four hours a day with only robots on the pay-roll—no humans. We could build an automobile to run 300,000 miles without overhauling, a pair of shoes that would last two and a half years, a cheap razor-blade to shave a man from adolescence to the grave without needing to be sharpened, a road-making machine to be run by three shifts of two men each twenty-four hours a day which can tear up in a single day an old roadway sixty feet wide and eight miles long and build a new one, foundation and pavement.

So say the technocrats. It follows, according to Mr. Scott, that we must have a society based, not upon price, but

upon energy. "Technocracy," he says, "makes one basic postulate: that the phenomena involved in the functional operation of a social mechanism are metrical." From this admirably lucid postulate, technocracy further assumes "that there already exist fundamental and arbitrary units which, in conjunction with derived units, can be extended to form a new and basic method for the quantitative analysis and determination of the next most probable state of the social mechanism."

Technocracy further states that, as all organic and inorganic mechanisms involved in the operation of the social microcosm are energy consuming devices, therefore the basic metrical relationships are: the factor of energy conversion, or efficiency; and the rate of conversion of available energy of the mechanism as a functional whole in a given area per time unit. Technocracy accordingly establishes a new technique of social mensuration—that is to say, a process of determining the rates of growth of all energy consuming devices within the limits of the next most probable energy state.

This might not be so cogent from ordinary men, but from a group of research technologists who have been working in Columbia University with a series of charts it cannot be gainsaid. The "price system" is doomed. Down with dollars. Up with the erg, the therm, the calory, the kilowatt, the joule. The slavery of man to constantly fluctuating values will be at an end. A dollar may mean two bushels of wheat or half a bushel. A pound sterling may mean $4.86 or $3.20, but an erg's an erg for a' that.

So everybody lately has been talking technocracy, and for a while it looked as if it might be the very latest thing at the coming Easter season; but several of our economic milliners have unkindly said that it was already out of date and would not be worn in 1933. One writer says the displacement of men by machines is a bogey like Malthus's bogey of man's outliving his food supply. Another writer had pointed out, for example, the mitigations of the evil of throwing a lot of clerks and scriveners and monkish copyists and incunabulists and illuminators out of work just for the sake of newspapers and books and other products of the

printing press and linotype. A third finds that the highest merit of technocracy is to rhyme with democracy. Still others have said with acidity, and slightly *ad hominem*, that the technocrats are really no brighter than bankers.

The technocrats themselves have not told us how they are going to bring their new energy society into existence. There are still some charts to be prepared.

Still, it does not pay to be too contemptuous either of our present social and economic systems, or of the remedies and alternatives devised therefor. The only contemptible people are the cocksure. No one who has lived through the last twenty years can fail to have been impressed by the almost incessant strain imposed upon society by fluctuations of the price structure—first, the upward trend of prices in the war period, which so disastrously affected creditors and salaried employees, and now the downward trend which theoretically hurts debtors for the benefit of creditors, but actually draws everyone to ruin. The depression has disclosed the defects of our society as the low spring tides disclose the perils of a rocky coast.

And certainly, whatever the causes of unemployment, whether technological or merely temporary, due to the rectification of the price structure or deflation or what not, it creates a situation which may not be ignored. Its treatment has enlisted, and certainly must enlist, our "best minds."

If there is to be anything like systematic unemployment insurance in this country, it must presumably be embodied in legislation to be passed by the several states. In time we may have forty-eight working (or failing) systems of unemployment insurance. Owing to the peculiarities of our federal system, short of some drastic constitutional amendment, we could not have a federal plan which would be applicable to more than a limited class of employees, *e.g.*, those employed on inter-state railways, and, of course, those immediately in the employ of the Federal Government.

At present we have no unemployment insurance plan in operation and public sentiment is wary of doles. The trend is still all in the direction of "relief" on an emergency basis.

However, industrial leaders have proposed projects of which the most discussed is probably the share-the-work plan advocated by Mr. Walter C. Teagle, of the Standard Oil Company of New Jersey. This great industrial concern adopted in 1930 the policy of spreading the diminishing quantity of work, instead of laying off employees. In some instances where the labor element is not too large an item in the cost of doing business, employers have shortened the week without reducing wages. Another plan (the so-called New Hampshire plan) exacts a financial contribution on a sliding scale from those in the higher wage or salary classification, and money thus released is used to pay workers in lower brackets. In another variation, work-sharing has been accomplished by uniform reductions of pay down to an agreed minimum wage. But the sponsors of the share-the-work movement admit that it is an emergency movement. Permanent solutions of unemployment have certainly not been reached on this side of the Atlantic. We have gone scarcely further than to agree tacitly that the future will see a shorter working week and a shorter working day. The American Federation of Labor is insistent on this. And probably public opinion will support it. Thus the next new era will find us preoccupied, if not with unemployment, with periods of unprecedented leisure.

IV

ON the great economic issues the battle continues to rage. On the one side we find certain economists and banking fundamentalists who insist that liquidation must run its course, that a balance will finally be reached on the new lower level, that relations will be adjusted on

that basis, and prosperity will then go forward. On the other side we find the inflationists of varying degrees who insist that commodity prices must be raised, or else bankruptcy and debt default will destroy all our national wealth. Letting liquidation run its course is like letting pestilence run its course. They point out that all the resources of our prosperous years are unimpaired—the intelligence and industry of our people, our great natural wealth, our matchless industrial plants. Let America declare war tomorrow and the depression would end in a day. The Government would borrow billions. "Patriotism" would come to a white heat. Industrial plants would start up. The railroads would groan under the carloadings. Teeming activity would replace rotting stagnation. Banks would bulge with new deposits. If it was right, they say, to spend twenty-five billion or more to kill men in Europe in 1917–19, is it wrong to spend four or five billion to save the lives of Americans to-day? We do not wish to go to war. William James sought its moral equivalent which should inspire men to valor and self-sacrifice. Now we seek its economic equivalent to provide the desideratum sought by Mr. Maynard Keynes—something which everybody will agree that it is proper to spend money for. But this would mean inflation. Will inflation be our salvation or our destruction? Like many lesser controversies, this one is fed by using the same words in different senses. If inflation means currency inflation either from printing new money or grossly debasing the old, then all our sane thinkers oppose it, and both our political parties are pledged against it. On the other hand, if inflation means the expansion of credit, an increase in purchasing power and in employment, with an elevation of commodity prices, then it is the only sign in which we may hope to conquer. If deflation has meant disaster, then inflation means hope. And the inflation which we have already had through the Reconstruction Finance Corporation, the Glass-Steagall Act, and the open market purchase of government bonds—all inflationary measures—has pro-

bably been largely responsible for our advance from the "lows" of last summer. To measures of controlled inflation it is believed that the new administration leans.

* * * * *

There is a stir of hope in the air. There has been a financial betterment. Banks are investing. "High grade" bonds are moving to new "highs." Deposits in the New York banks are increasing, sentiment is improved. The new administration typifies new achievements. But with the New Deal before us, we are still practically at the industrial nadir, with our business and our political machinery standing idle. These are dark hours for our Republic.

The United States of America.
January 31, 1933.

A GLANCE AT TRADE AND INDUSTRY

I. The Position To-day

THE unemployment returns for January came as a sharp corrective to the rather dangerous complacency that political speeches during the recess had been displaying. Registered unemployment reached 2,900,000 on January 23, the highest figure yet touched. It was 91,000 more than in September, 1931, when we left gold, and before the purge of the registers by the operation of the Anomalies Act and the means test. In January the number of the registered unemployed was 175,000 more and the number of persons in employment (on the Ministry of Labour's estimate) 76,000 less than twelve months before. The seasonal setback was no greater than in the three preceding years, but that is all the less encouraging to those who have been arguing as though if we waited long enough our difficulties would end of themselves. The detailed returns are not available at the time of writing, but it appears that the January regression was common to most manufacturing industries, as well as to the more markedly seasonal trades. This impression of relative stagnation, if not actual further decline, is confirmed by most other indications.

It is not, however, a stagnation without hope. The sense of imminent catastrophe that overhung Europe twelve months ago has lost its oppression, but at the same time the unreasoning hopes that were put forward in political and economic conferences have become restrained. Although a pathetic faith in the World Economic Conference colours every business forecast and speech, it is

becoming tinged with cynicism. The statesmen move so slowly. Yet it is only fair to admit that British industry in the early months of 1933 has some lighter patches to relieve the gloom. As Sir Josiah Stamp has put it, " there are more factors adjusted for recovery at the present time than there were twelve months ago." Our international trade remains at a deplorably low level, but the visible adverse balance of trade has continued to decline. Allowing for the fall in value, the volume of imports was last year 12 per cent. less than in 1931, and nearly 10 per cent. less than in 1930. Exports, on the same basis, were 0·4 per cent. greater than in 1931, although 23·2 per cent. less than in 1930. The January trade figures show no serious worsening. We may congratulate ourselves, therefore, on having reached some degree of stability, even if it be that of " dragging along the bottom," and on there being, so far as the internal signs go, few obvious grounds to fear a bad relapse. The tone is reasonably cheerful, and that may mean a good deal. The roughest survey of the position of the principal industries serves, however, to remind us that natural recuperative forces will be insufficient to restore them to full activity.

The coal industry, for example, displays considerable vitality, although the output in 1932 was the lowest (barring the strike years of 1921 and 1926) since 1898, and exports were smaller than in any year (the war years and 1926 excepted) since 1899. It is something perhaps that in other coal-producing countries the pace of decline has in recent months been sharper ; their slump came later than ours. But what revival the British industry has been experiencing is due largely to currency depreciation and to the urgent need of retaining a hold on our contracting market for their exports that our foreign customers feel. The immediate stimulus to coal exports given by devaluation was soon watered down by the adoption of counter measures abroad. The countries on gold met it by protective devices—bounties, embargoes, quotas and taxes ; the countries off

gold by exchange restrictions. The restrictions were particularly marked in Germany, France, Holland, Belgium and Spain, and the losses in our coal exports to them account for more than the total reduction in British exports as compared with the 1931 figure. On the other hand there have been gains, which continue, in Scandinavia and the Baltic (at the expense of Germany and Poland) and in Canada and South America (at the expense of the United States). The northern European markets may be consolidated and increased as a result of the present discussions about bi-lateral agreements, though whether at the expense of further restrictions on the trade of other countries is not clear; the worst excesses of the German, French and Belgian quotas may soon be trimmed (concessions are now under discussion). But it is none the less clear that the industry's future depends on the achievement of a broad international settlement, for any general recovery in foreign demand, or in the home market, the falling off in which was last year mainly responsible for the decline in output.

Internally the British coal industry can look forward to relative freedom from labour disputes—under the conciliation agreement in South Wales present wages have just been continued for another twelve months—and to a disposition to co-operate on the part of the men which has not been so marked since before the war. The Secretary for Mines was able to arrange in December for a joint meeting between the national bodies which represent the owners and miners respectively, although the latter have not been able to gain their cherished wish for the settlement of wages on a national basis. It is unfortunate that the conflicting interests of the owners in the various districts have not yet been reconciled to the point of bringing about the much needed improvement in the schemes for regulating production and sale. These have long been promised, but extremely slow progress is being made. While the sporadic revival of attacks on the whole machinery of the Act of 1930 do not indicate a widespread and cohesive movement

· its repeal, they do indicate that the industry still lacks ɛ decisive, unified voice that would be so useful in international discussions when trade begins to revive, and an ort must be made to avoid a cut-throat European ·amble.

An incidental point of some interest in recent months s been the diversion of trade with London and the south m the midland coalfields to those of the north-east coast d Scotland. This increase in coastwise shipments is ɛ reflection of the disparity between water and railway ·riage charges. The former are below the pre-war level; ɛ latter 60 per cent. above it. It was stated in evidence fore the Railway Wages Board that the London and North stern Company had lost 2,000,000 tons of traffic in this y. This is a remarkable reversion to the great coasting ide on which the old north-eastern coalfields were built up. would hardly be supposed that economic history could rn so sharply in its tracks. The disequilibrium may not rsist, although it seems inevitable that with a shrunken ·eign trade the export districts will try to sell more at me.

One lesson the coal industry has learned from the de-ession is that it must study the arts of salesmanship. A al Utilisation Council has been formed to conduct opaganda, to encourage research, and to combat the all-nquering march of oil. It has a strong "Buy British" le, and is not above making such home thrusts as the ocking revelation that the Bank of England and the ·deration of British Industries have their offices heated a foreign fuel! It leads also to local evangelical move-ɛnts like the campaign of the Lancashire owners and ners to persuade their countrymen to refrain from using ɛ coal of the foreigners of Yorkshire and the Midlands.

Efforts at improvement from outside have not been so rmly received. The Coal Mines Reorganisation Com-ssion, after a long course of persuasive admonition, has ken the first steps towards using its compulsory powers.

It intimated in January that it would employ them to bring about the amalgamation of the mines in the county of Fife and in Cannock Chase. It has also taken preliminary action in south Derbyshire and in Leicestershire; and voluntary valuations are being made of the mines in the three areas of the Lothians, the Forest of Dean, and the St. Helens district of Lancashire. The Commission has not acted hastily; it has adopted a piecemeal policy instead of its original counsel of perfection of mergers of whole coalfields; but, none the less, it is likely to meet with stiff resistance from many individual owners.

The coal industry puts its trust in the lowering of foreign tariffs and impediments to trade. The iron and steel industry now puts its trust in the maintenance of the British tariff and the removal of the trade impediments of other countries. Some signs of improvement are pointed to; as in the case of coal, British iron and steel makers have recently lost less ground than their competitors, but, in spite of the two years' protection now assured, the depreciation in sterling, and the concessions made in the Ottawa agreements, revival is almost entirely contingent on a general trade recovery, and a renewed demand for capital goods. The industry has set up a framework of committees to prepare a reorganisation scheme, but to judge from a speech by Sir George May, the chairman of the Import Duties Advisory Committee, on January 24, progress has not been rapid. Sir George felt it necessary to say that if the industry does not reorganise itself "someone else is going to do it for you."

An important development was announced on November 29. Messrs. Stewarts and Lloyds, with the financial backing of the Bankers' Industrial Development Company, are to establish at Corby, in the Northamptonshire iron ore field, works for the production of Bessemer basic steel, which is not now produced in Great Britain at all. The works will include the whole chain of manufacture from the extraction of the iron ore to the making of the finished steel tube.

During the last quarter shipbuilding has shown signs of movement, but it is movement from an exceptionally low level. Last year was the worst in its modern history. The output of British yards was little more than a third of what it was in 1931, and much less than a third of the output in any other bad year for half a century. In the December quarter, the merchant tonnage commenced was no more than 39,403 tons. For the greater part of the year work was on hand in only five per cent. of the yards of the country. The Clyde output was the lowest since 1860; only one of the dozen yards on the Wear had any work, and that only on a couple of small colliers. Belfast's output was one small vessel of 5,869 tons, and at the end of the year there was no new ship under construction there. The unemployment percentage in December was 63·5 (in Northern Ireland 82·5). Since November there has been some revival of orders for mercantile shipbuilding, and it is likely that the amount of new tonnage begun in British shipyards in the current quarter will exceed the amount in the whole of 1932. Shipowners, as Mr. Runciman has pointed out, are beginning cautiously to look ahead.

In face of the immense quantity of idle tonnage which fills all the British harbours—1,971,000 net tons on December 31—as well as the harbours of all other countries, any sign of returning confidence among shipowners is encouraging. There has been renewed discussion of the possibility of international action for the laying-up or scrapping of surplus ships, but the subsidy system seems to be an irremovable obstacle. Attention is drawn in another article* to the enormous sum found by the United States taxpayer (there are signs at last that he himself is beginning to turn against it) to cover losses incurred on building or operating ships, and almost equally unedifying morals—for the domestic taxpayer, and for the prosperity of the British shipping industry—might be drawn from the policy of Germany, Italy and Japan. The committee of shipowners,

* See page 256.

called together in Paris by the International Chamber of Commerce at the end of November, put the position well when, in prefacing its demand for the abandonment of "uneconomic subsidies," it declared:

> Failure to respect the principle of the world market has halved the volume of international trade, and discrimination and uneconomic subsidies in shipping are rapidly destroying the basis of international ocean transportation, which is equality of treatment of the vessels of all flags in all parts of the world. Free access to an open freight market is essential to the prosperity of international commerce, but there can be no such market in any country, which is discriminating in favour of ships under its own flag.

The Chamber of Shipping and other representative bodies have been strongly urging that the World Economic Conference should take up the question of shipping subsidies, as being a most dangerous and harmful form of trade restriction.

The cotton industry has felt the advantages of sterling depreciation longer than most other industries. Last year showed a distinct recovery in production, employment and trade compared with 1931, but (as we noted six months ago) the pace began to slacken in the second half of the year, and the last few weeks have seen a further serious falling off of demand. There has been no sustained improvement among Lancashire's European and American competitors, and the world export trade assumes more and more the picture of a fierce contest between Japan and Lancashire. For three short months at the end of 1931 Japanese competition was held off by the Chinese boycott and by her attachment to gold. But since Japan abandoned gold and let her currency slide, the pressure of her competition has steadily increased. Lancashire shippers throw up their hands in face of a yen that has depreciated since December, 1931, from 36d. to 14¼d. in terms of sterling, a reckless sales policy, and an organisation of production that is much more efficient for the purposes of bulk trade in cheap goods than Lancashire's. A few sentences from the

survey of the world trade in cotton piece goods made
e Cotton Trade Statistical Bureau will illustrate the
ion:

ndia the imposition of the additional tariff on non-British
oods was followed by a drop in imports, but British trade has
nuch more seriously than Japanese trade. . . Japanese trade
e Straits Settlements has reached record figures. . . Imports
e Middle East reveal a further extension of Japanese compe-
A substantial rise in total imports into Egypt in the third
r of 1932 was entirely due to increased imports from Japan,
in September had reached the record figure of 9·6 million
r nearly half the total imports. . . In East Africa, Japan has
ntrol of the market, and although Great Britain did a larger
n 1932 than before the departure from the gold standard, this
prevent a further expansion of Japanese trade. . . In British
frica the bulk of the trade is still held by Great Britain. . . In
ison the extent of Japanese competition in this market is
nall, but there are signs that it is increasing. [Japan ex-
to Nigeria, the Gold Coast and Sierra Leone 1·4 million
yards in the first nine months of 1932, against 133,100 square
n 1931 and 20,500 square yards in 1930.]
extension of Japanese competition in South America, par-
y Argentina, bears no relation to the depressed state of these
s. Although exports to Argentina from Great Britain, the
States and Italy have been falling since August, Japanese
, after a drop in September, continued to increase through-
e second half of 1932. . . Japan is maintaining a steady
ith South Africa and Australia.

II. Competition and Imperial Politics

IE internal reactions of this competition are worth
oticing. Early in December a group of Man-
r merchants and producers began an agitation for the
of stiff preferences for Lancashire goods in India,
rown Colonies, Dependencies and mandated terri-
and, if necessary, the use of compulsion to that end.
lanchester Chamber of Commerce took up the case,
n December 12 passed a resolution which may
certain historic importance. It declared that

tries to which Great Britain grants favourable terms for
y of their products into the British market it is unreasonable

and intolerable that Britain's premier export trade—that of cotton goods—should be left without any safeguards against the competition of countries with lower standards of living and depreciated exchanges, and that the continuance of such favourable terms of entry into the British market should be dependent upon full reciprocal treatment from the Empire and foreign countries concerned.

The meeting therefore calls for the imposition of adequate preferences on British cotton and artificial silk goods in all parts of the Empire where the British Government are free to act, and for steps to secure freedom of action in other parts of the Empire at the earliest possible date.

In cases where adequate preferences are not granted preferences in the British market should be withdrawn.

Deputations have waited on Ministers, and in its annual report the Chamber has threatened to use "the political weapon" and to mobilise parliamentary opposition to an Indian settlement if Lancashire's interest in India are not safeguarded, and "the alliance of the Indian millowners with the Congress party" is not disregarded.

This attitude towards the Indian settlement may appear rather out of key with British Government policy, and the whole basis of the agitation may seem to ignore the obvious considerations that India will not surrender her fiscal autonomy at the bidding of a manufacturing rival, that the creation of a closed colonial Empire would involve the denunciation of numerous treaties, and that when all has been done only a relatively small portion of Lancashire's world market would be preserved to her; Japan's competition in all other markets would be enormously intensified. But it has to be remembered that the cotton trade did badly out of Ottawa; the bickerings with the Canadian textile interests left a sense of resentment; and with the zeal of the new convert a good many people in the cotton trade are inclined to believe that if we do live in a protectionist age there must be cash returns, whatever the political consequences.

It may be doubted whether the intransigent attitude towards an Indian settlement based on fiscal independence

will persist. There is behind it an element of window-dressing and a hope to influence the new Indian budget. The more reasonable line of approach, to which Lancashire will probably soon return, is that of friendly co-operation with India. The discussions during the Ottawa Conference were helpful, and if Lancashire can show an earnest of goodwill by using more of India's cotton for which Japan is a good customer, and can persuade the Indian politician and millowner that an economic agreement, free from any suspicion of the " big stick " and fiscal domination, can be negotiated, a common policy useful to both Indian and British manufacturers might be worked out.

The dispute between the Ceylon State Council and the British Government over the introduction of imperial preference is a further illustration of the political reactions of the competition in textiles. Cotton piece goods have figured largely in the Council's debates. The fact that Japan has captured four-fifths of the trade by her cheap goods adds point to the demand for a moderate 10 per cent. preference in return for the preference Great Britain gives to Ceylon's chief export, tea. But, to quote an illuminating letter from a Manchester merchant in Ceylon :

> The great cry among the State Councillors is that the poor man here cannot afford to be taxed, that he should be allowed to buy his cloth at the cheapest possible price. They forget that it is the poor man in England who drinks tea with every meal, who is paying the preference on tea, not the rich man who probably has a cup of tea in the afternoon only.

The economics of colonial imperialism call for the striking of a fine balance.

One further point must be made. It is important to realise that any return to an international monetary standard to which Japan was not a party would leave British trade in the East extremely vulnerable to attack.

A Glance at Trade and Industry

III. The Railway Problem

THE only serious labour dispute on the horizon is that on railway wages. During the last three months there has been a settlement of outstanding labour troubles in the cotton industry, notably the conclusion of an agreement on the system of working more looms to a weaver, the earlier disputes on which have been described in previous issues,* and new conciliation machinery has been set up by which, for the first time, an independent chairman and independent members are introduced to guide the disputants to a peaceful issue. The principle was adopted from the conciliation machinery of the railways. A few weeks afterwards, however, the railway machinery itself produced something like a deadlock. The report on the hearing of the companies' claim for an increase of the temporary reduction on earnings to 10 per cent. (subject to a minimum of 38s.) was issued on January 13. There were actually six reports: the companies' representatives held to their full demand and had the backing of the members nominated by the Federation of British Industries and the Associated Chambers of Commerce; the union representatives opposed any further cut and were supported by the nominees of the Trades Union Congress and the Co-operative Union; the chairman, Sir Harold Morris, was the only member to offer a middle course. He suggested a small addition to the present temporary reductions, the effect of which would be to save the companies less than £1,000,000 a year, instead of the £4,600,000 which they had estimated their demand would amount to. The result was certainly inconclusive. Could it be urged that the report of a single member (the chairman) was a valid finding of a board of 17? Or was it, as the unions argue, of no more account than the other

* The Round Table, No. 85, December, 1931, p. 132; No. 86, March, 1932, p. 364; No. 88, September, 1932, p. 848.

ts which cancelled each other out? The companies, ›us above all things of maintaining the conciliation inery in effective use, decided to accept the chairman's ıg and threw the onus of refusal on the unions. The s have refused to accept it, but the companies, except ınouncing that they have "in their judgment fulfilled bligations placed on them under the Act which coned the National Wages Board" (the Railways Act, , have not disclosed what their next step is to be; must now, they wrote on February 2, "proceed to ler afresh the situation thus created."

e situation is not at all clear. The Government has .sed to introduce a Bill based on the Salter report : Easter, but the extent to which it is prepared to giving railways relief from the competition of their competitors is not known. The unions have placed ıelves in a position of antagonism to any wage cuts which it will be difficult for them to recede. The ııgn against reductions was conducted with some .ce of language before the Board began its hearing, he spirit of no-compromise has been fanned since. 'esult of the Irish strike may have a close bearing on policy.

: Irish Railway Wages Board in November decided by ɔrity (the chairman, companies' and employers' repretives on one side; the unions' and Labour repre:ives on the other) in favour of increasing the present ɔrary reduction in earnings from 4⅜ per cent. to 10 per (the companies had claimed 15 per cent.). The ınies threatened to put the increased reduction into tion on December 26, and the unions threatened to . Mr. de Valera bought a truce for the Free State fering a subsidy to the companies until the end of and a new Transport Bill. The companies in ıern Ireland gave a month's grace but refused to iate any substantial concession. The railways of ıern Ireland, with their connections in the Free State,

stopped on January 30, and at the moment of writing there is no settlement. The Irish transport problem has the same features as Great Britain's, and calls for the same kind of remedies—the co-ordination of road and rail under national regulation, regardless of any arbitrary political boundary.

* * * * *

This rather desultory glance at some of the current movements in British industry has been mainly taken up with the exporting industries and their problems. A study of the home market and some of the minor and newer industries would help to present a more heartening picture. Less has been heard in recent months, perhaps, of the new trades and new factories that foreigners are hastening to plant behind the tariff wall, but the migration has continued. It has not yet, however, affected our industrial balance, and it may produce incidental drawbacks. One such was alluded to by Mr. Kenneth Lee in a recent speech —the danger that the new factories may be used merely as branch producing units, and that all the scientific research work will be done by the parent company at home. A closer analysis might also have added, on the credit side of British industry, the gathering of opinion about the value of scientific research. All the chairmen of the Big Five banks used the theme in their annual addresses, and it may be inferred from Mr. J. Beaumont Pease's speech, research is now to receive special financial consideration from the banks.

But essentially the problem of recovery remains international. Such a measure of stability as we have reached, and such a measure of relative advantage as the favourable movement of our trade in recent months and the strengthening of our financial structure gives us over those of other great industrial nations, is not enough on which to base a confident faith that the "upswing" of the cycle is plainly before us. National forces may be working for recovery but they will not be sufficient of themselves. The difficult

negotiations with the United States and the wider discussions of the World Economic Conference (now unfortunately being pushed ever further forward into the year) are the next stages. Unless they end in a rational adjustment of international debts, in an arrest of the decline in prices, in the lowering of trade barriers of all kinds, and in the rebuilding of a smoothly working mechanism of exchange, the major conditions of world recovery will still be wanting.

FOREIGN LAW IN THE BRITISH EMPIRE

I. British and Continental Colonial Policy

ON October 31, 1807, Napoleon wrote to his brother Louis, King of Holland:

> Je désirerais que vous ordonnassiez qu'à partir du ler janvier prochain le Code Civil sera la loi de vos peuples [1]

Louis' reply has not been preserved, or at any rate published. But it is evident from the rejoinder it elicited that he had ventured to suggest that the immediate incorporation of the Code Civil *en bloc* into the law of Holland was open to objection.

Napoleon's retort was characteristic:

> Si vous faites retoucher au Code Civil, ce ne sera plus le Code Civil. Je ne vois quel temps il vous faut, ni quels changements il y a à faire, ni le tort que cela fera aux fortunes particulières. . . . Une nation de 1,800,000 âmes ne peut pas avoir une législation à part. Les Romains donnaient leurs lois à leurs alliés, pourquoi la France ne ferait-elle pas adopter les siennes en Hollande. . . . Cela resserre les liens des nations d'avoir les mêmes lois civiles.[2]

Napoleon's reference to the practice of the Romans was historically incomplete, if not incorrect, for the *prætor peregrinus* elaborated for the stranger within the gates of Rome a system of jurisprudence which was quite distinct from the old *jus civile*, and in many of the countries subject to

(1) *Correspondance, Vol.* 16, p. 131. (2) *Ibid.* p. 161, November 13, 1807.

her sway, Rome was not altogether indisposed to leave the field of local customs and usages alone. But Louis had no qualification for the rôle of critic of his brother's legal history, and the passage above cited is undoubtedly, in the main, an accurate statement not only of Napoleon's own habitual procedure[3] but of French and, indeed, of continental colonial policy. The mandate system, inaugurated in 1920 under the auspices of the League of Nations, has now secured, for local customs and usages, permanent recognition in the new dispensation of international administration.

At all stages in her history, France tended to impose her own law for the time being on her colonies and dependencies. The policy of Holland is expressed in the first article of the Instructions issued in 1623 by the Council of the United East India Company for the guidance of colonial governors and other officials:

> As well generally as in special cases (whether civil or criminal), at Batavia and all other places under the dominion of the Company, justice shall be done in accordance with the instructions and customs which are as a rule observed in the United Provinces of the Netherlands . . . until such time as other special instructions be made.[4]

Neither France nor Holland attempted to introduce into their colonial system the whole volume of French or Dutch legislation and jurisprudence. An eclectic policy, as we shall see hereafter, was pursued by both. But neither of them stayed to inquire too curiously whether a new colony had any common law that was worth preserving. Spain followed the same course. Germany's entrance into the field of colonial expansion is of recent date, but even those who might challenge President Wilson's *dictum* that she acted, in

[3] Thus, on May 15, 1808, in a letter to Junot (*Correspondance*, Vol. 17, p. 134), he says: "Y aurait-il de l'inconvénient à faire publier le Code Napoléon en Portugal"; and on May 19, 1808 (*ibid.* p. 166), he directs Joachim to sound the Council of Castille as to its introduction into Spain.

[4] Burge, *Colonial and Foreign Law*, 2nd Edition, Vol. 1, p. 99. Holland, of course, recognised native customs and habits.

dealing with her overseas dominions, as if her interests were coincident not with the progress of her native subjects but with their extermination, will not affirm that she displayed any undue tenderness to indigenous common law.

From the fetters of continental colonial policy, England was saved by a well established principle of her constitutional law, that whereas in colonies founded by settlement the settler takes with him the law of England, or such portions of it at least as are applicable to his new surroundings, in those acquired by conquest or cession, the existing law remains in force, *mutatis mutandis*, unless and until it has been abrogated by the new governing power.[5] The authority of this rule, and the innate genius, of which it was the expression, of the English race for colonial administration, predisposed our ancestors to lend a willing ear to the appeal of peoples of whose destinies, by the fortune of war or the vicissitudes of diplomacy, they were about to assume control, that the maintenance of the subsisting law should be guaranteed in treaties of capitulation or cession, and even, in the absence of conventional stipulations, to acquiesce in its continuance.

II. French Law in the British System

It may be of interest to attempt a rapid survey of the different systems of foreign law that find, or at one time or another have found, lodgment within the limits of the British Empire under the ægis of this policy, and to note in very general terms the extent to which they have severally been abrogated or retained. The foremost place must be assigned to the law of France.[6] It had passed

[5] *Campbell* v. *Hall* (1774), 20 St. Tri. 323; *Ruding* v. *Smith* (1821), 2 Hagg. C.R. at p. 382; 1 St. Tri. N.S. 1062.

[6] *Journal Comparative Legis.* N.S., Vol. 10, p. 93 (lectures delivered by Sir Alexander Wood Renton, G.C.M.G., K.C., at University College, London, in May 1909, on "French Law within the British Empire"), and *Bulletin de la Société Française de Législation Comparée*, 1932, p. 88. "Le Droit Français dans l'Empire Britannique," paper read before the Hague Academy of Comparative Law on August 7, 1931.

through several stages of development. First came the period when the whole country was divided, for juridical purposes, into two great tracts of territory—the *pays du droit coutumier* in the north, where various, and to some extent conflicting, bodies of customary law—the most important of which were the Customs of Normandy, Paris and Orleans—prevailed : and the *pays du droit écrit* in the south, where the civil law, modified by so-called "barbarian" usages was in force. Voltaire has told us that the confusion and the uncertainty resulting from these different systems of jurisprudence were such that the traveller in France changed laws as often as he changed post horses. Probably the situation was not so bewildering as Voltaire made it out to be. In the *pays du droit coutumier*, the civil law was resorted to where custom was silent. The influence of custom made itself increasingly felt in the *pays du droit écrit*, and a large body of law, including obligations, appears to have been the same for the entire kingdom. In any event, a second stage of development was entered upon when, from the time of Charles VII onwards, the customs were reduced into writing. Then the royal power of legislation by ordinances was utilised, as in the ordinances of Colbert and D'Aguesseau, in the practical codification of whole branches of the law. Every corner in the field of French jurisprudence was covered by the immortal commentaries of Pothier. Finally, the dæmonic genius and energy of Napoleon[7] took charge of the situation. The codes were completed, and the aspiration of Louis XI that there should be one law for the realm of France was fulfilled.

The Channel Islands

The earliest point of contact between French law and the British Empire is to be found in the Channel Islands, which, forming part originally of the Duchy of Normandy,

[7] He presided at 74 out of 160 sittings of the Conseil d'Etât that considered the draft of the Code Civil, and his speeches are recorded in Locré.

descended, with the Duchy, to William the Conqueror, passed on his death to his elder son, Robert, while William Rufus succeeded to the Crown of England, and were re-united with Normandy to England by Henry I.[8] Since the time of John, they have, in the language of Hale,[9] been

> enjoyed by the Crown of England, although they are still governed by their ancient Norman laws.
>
> Those Isles (said Coke in *Calvin's* case in 1608) are no parcel of the realm of England, but several dominions enjoyed by several titles and governed by several laws.[10]

The States of Jersey,[11] making use of a power analogous to that of the old French *Parlements*, have claimed the right to arrest the operation of Orders in Council to which they take exception by denying to them the seal of registration which, as such measures, in their application to Jersey, rest on the royal prerogative, is essential to their validity.[12] But, under the Interpretation Act, 1889,[13] the expression "British Islands" includes the "Channel Islands" for the purposes of that Act, and of every Act passed after its commencement, "unless the contrary intention appears," and the Imperial Parliament has made free use of the power conferred by that enactment.

The common law of Jersey is still based on the Custom of Normandy, embodied in *Le Grand Coustumier du pays et Duché de Normandie*—a statement of the law as it existed in the time of John, and on the commentaries of Terrien, who wrote long after the[14] separation of the Duchy from

(8) Forsyth, *Cases and Opinions on Constitutional Law*, p. 391.
(9) *History of Common Law of England.*
(10) 7 Co. Rep. 21 *r.*
(11) A similar claim has been made good by Guernsey, although no precedent on the point is to be found in the reports of the decisions of the Judicial Committee
(12) Report of Jersey Commissioners 1860–61, p. V: *In re the States of Jersey* (1853), 9 Moo. P.C. 185: *In re Daniel* (1891), 8 St. Tri. N.S. 314.
(13) 52 and 53 Victoria c. 63, S. 18 (1).
(14) *La Cloche* v. *La Cloche* (1870), L.R. 3 P.C. 136.

England. The Customs of Orleans and Paris are not in force in Jersey, but may be referred to as *ratio scripta*.[15]

In Guernsey, the *Grand Coustumier* has never been so fully received as law as in Jersey, and the principal authorities on the customary law are the *Approbation des Loix*, a commentary on Terrien, confirmed by an Order in Council of October 27, 1581, and the *Précepte d'Assise*, a statement, probably framed by the Royal Court, of what the inhabitants considered at an early period to be their rights and privileges.[16] The Channel Islanders have clung with singular tenacity to their ancient laws, which regulate still, with modern statutory modifications,[17] the tenure of real property and testamentary and intestate succession. The proceedings and oral pleading in the Courts are, in principle, in French, although witnesses may give evidence in English. It is mainly in the region of the criminal law that English ideas have asserted themselves. But the old *Clameur de Haro*, a form of appeal to justice by which encroachments on property are promptly brought before the Courts, still survives.

Scotland

Considerations of space preclude anything more than a passing reference to the influence of France upon the law of Scotland. In its earliest structure, Scots law approximated closely to the Statute Law of England. During the existence, however, of the "Ancient League," into which France and Scotland were driven by mutual hostility to England, a change took place. The law of Scotland became assimilated to that of Rome. Holland, at a later stage,

(15) *La Cloche* v. *La Cloche*, *ubi. sup.* at p. 138: *Falle* v. *Godfray* (1888), 14 A.C. at p. 76.

(16) *Jo. Comp. Leg.* N.S., Vol. 10, p. 96.

(17) See, *e.g.*, Law of July 13, 1928, confirmed by Order in Council, and registered on September 8, 1928, which provides that a woman, on marriage, shall retain, notwithstanding marriage, all her rights as a *feme sole*. This law, which is founded on the English Married Women's Property Acts, was drafted in English, in order to enable the local Courts to avail themselves of English decisions in construing it.

contributed to this transition. But that France played an important part in it is clear. The terminology of Scots law contains numerous traces of French influence. A bankrupt is a "dyvour" (*devoir*): advocate (*avocat*) and procurator (*procureur*) are equivalents of barrister and solicitor: a successful defendant is "assoilzied" (Old French, *absoillé*): to "compryse" (comprendre) is to attach for debt: the right to decline trial by a particular judge is "declinature" (déclinatoire): a man's property or means is his "valiant" (*vaillant*): to bribe is to "creish" (*graisser la palme*). Moreover, in its constitution, in its powers, in the privileges of its members, and in its original procedure, the Court of Session, established by James V, in whose reign the "Ancient League" was at its zenith, was a reproduction of the French *Parlement* in miniature. As regards the Scots Bar, the most distinctive French feature is that its head is the popularly-elected Dean (or doyen), whose badge of office, an ebony baton, assimilates him to the *bâtonnier* of the French Bar. The Act of Union between England and Scotland, which in 1707 created one legislature for the two countries, maintained their existing separate laws and courts, except so far as these were affected by the Act itself or by subsequent legislation,

> with this difference betwixt the laws concerning public right, policy and civil government and those which concern private right, that the former might be made the same throughout the whole United Kingdom, but that no alteration be made in laws which concern private right except for the evident benefit of the subjects within Scotland.[18]

The maritime law of the two countries has now been declared to be the same,[19] but Scotland still retains her own private law, and at least on one important point—legitimation *per subsequens matrimonium*—England has recently adopted it.[20]

(18) *6 Anne, c. 11., Art. 18.*
(19) *Currie* v. *McKnight* (1897), A.C. 97.
(20) Legitimacy Act, 1926 (16 and 17 George V), V.c. 60.

Canada

It was, however, in Canada, St. Lucia, Mauritius and Seychelles, that French law found its real field of operation. The province of Quebec, in which the first French settlement had been established by Champlain in 1608 after a century and a half of vicissitudes, was ceded to England by the Treaty of Paris in February 1763. The law then in force consisted of (i) the Custom of Paris, and the ordinances prevailing within the jurisdiction of the *Parlement de Paris*, except such as were clearly not intended to take effect outside France; (ii) the *arrêts* of the *Conseil du Roi*, set up in Quebec by an edict of Louis XIV in April 1663, and the ordinances published between 1663 and 1763 and, in both cases, duly registered by the Council[21]; (iii) the ordinances of the administrative authorities, particularly those of the Intendants, who presided at the Council and were invested with powers of legislation; (iv) the judgments of the Courts.

For a time, the fate of French law in Quebec was uncertain. The Treaty of Paris had been silent on the subject, and a Royal Proclamation of September 17, 1764, clearly envisaged the establishment of Courts of Justice, framed after English models, and indeed the introduction into the colony of English law itself. It was only in cases between natives, where the cause of action arose before October 1, 1764, that "the French laws and customs were to be allowed and admitted." Moreover, the French Canadians themselves appear at first to have failed to realise the danger that threatened their ancient law, and even at times to have taken advantage of either French or British jurisprudence as best suited their immediate purpose.[22] A curious illustration of this phenomenon is furnished by a case in which,

[21] See *Hutchinson* v. *Gillespie* (1844), 4 Moo. P.C. 378: *Les Soeurs Dames Hospitalières de St. Joseph de l'Hôtel-dieu de Montreal* v. *Middlemiss* (1878), 3 A.C. 1102, 1119: *Symes* v. *Cuvillier* (1880), 5 A.C. 138.

[22] For details, see *Plan of a Code of Laws for the Province of Quebec*, reported by the then Advocate-General (Marriott) in 1774.

in a dispute between a *British* and a *French settler* as to the purchase of an estate, the former invoked the law of France, while the latter appealed to the law of England! Ere long, however, the question of the maintenance of the old French law in Quebec was definitely raised, and in 1774, the Act of Quebec[23] provided that, in all matters of controversy relative to property and civil rights, resort should be had to the law of Canada as the rule of decision.[24] That law is now embodied in the Civil Code of Quebec, which came into force on August 1, 1866, and abrogated, as from that date, all the old law wherever it was inconsistent with the Code, or dealt with matters for which the Code provided.[25] A companion Code of Civil Procedure was enacted on June 28, 1867. The Commissioners for the codification of the laws of Lower Canada, by whom the Quebec Codes were prepared, were required to insert in their drafts the civil laws of a general and permanent character actually in force, to exclude those that had become obsolete, and to give their suggested amendments apart and distinct from the text of the existing law, with the reasons and authorities for every change proposed. In the execution of this task, the Commissioners drew their material from all sources—the old French law, the *Code Civil*—with a bent, however, in favour of the former, for Quebec always has been, and still is, *la fille de la France coutumière*,[26] the law of England, and even on some points, the Civil Code, also French in character, of Louisiana. The criminal law of England has, since 1763, been accepted,[27] and in the constitution of the maritime and commercial laws of Quebec both the French Maritime Code of 1681 and Code of Commerce and the laws of England, Scotland and America have borne a part.

[23] 14 George III, c. 83.
[24] And see S. 129 of the Federation Act of 1867 (30 & 31 Vic. c. 3).
[25] See art. 2613.
[26] Mignault, *Droit Civil Canadien*, Vol. IV, p. 439 *n*. (b).
[27] See now the Criminal Code for Canada (Dominion legislation) which came into force on July 1, 1893.

The West Indies and Mauritius

In St. Lucia alone among the West Indian Islands has the influence of French law definitely survived.[28] The French claimed it by length of occupation, under an edict of March, 1642; the English pretentions to it rested on a settlement of 1649. Under the French régime it was administered first by the West India Company, and afterwards as a dependency of Martinique. The main subsequent stages in its history were these—capitulation to England in 1762, restoration to France by the Treaty of Paris in 1763, fresh captures by England in 1778, 1794 and 1796, surrenders to France by the Treaties of Versailles and Amiens, recapture by England in 1803, and final cession to the British Crown, "in full right and sovereignty" by the Treaty of Paris in 1814. The French laws which England found in force in St. Lucia had been established there in 1681 by an *arrêt* of the *Conseil Supérieur* of Martinique, and consisted of the Custom of Paris, certain of the old codifying ordinances of the French Kings and the Slave Code—the *Code Noir*—of Martinique.

It is doubtful whether there was any express guarantee by England of the maintenance of French law in the island, and its continuance would seem to have depended largely on the rule that the law of a conquered or ceded colony, at the time of conquest or cession, remains in force till it has been altered by the new governing authority. A Civil Code, prepared "upon the principles of the ancient law," but closely following the provisions of the Quebec Code, was enacted in 1879. A Code of Civil Procedure was brought into force in 1882. In other matters, radical changes had already been made. English was made the language of the Law Courts in 1842. English commercial law was

[28] According to Ilbert (*Legis. Methods and Forms*, p. 169), some old French *arrêts* still exist in St. Vincent. In Grenada the usual English policy was departed from. English law was introduced into the Colony by Royal Proclamations of December 19, 1764, and January 10, 1784.

introduced in 1844, and trial by jury in 1848. The criminal law of France was abolished in 1875; and in 1888, were enacted a Criminal Code and a Code of Criminal Procedure, framed on the lines of English law.

Mauritius and its "dependencies"—a category then including the Seychelles—were ceded to England by France under a Capitulation, dated December 3, 1810. The eighth article of this instrument expressly preserved to the inhabitants their religion, laws and customs. The Capitulation was confirmed by a Proclamation of December 5, 1810, but the Treaty of Paris, 1814, ceded Mauritius and its dependencies to England "in full right and sovereignty," and contained no reference to the preservation by the Capitulation and the Proclamation of 1810 of their then existing laws to the inhabitants. Mauritius had been used as a port of call by the Portuguese and occupied by the Dutch; but neither Portugal nor Holland have left any traces of their influence in the laws of the colony. Possession of the island was taken on behalf of the King of France in 1715. It was subsequently administered (i) from 1721 to 1767, by the French East India Company (the famous Mahé de Labourdonnais* was governor from 1735–1746; (ii) from 1767 to 1790, for the French Crown, by a *Conseil Supérieur*; (iii) from 1790–1803, by the Governor and Colonial Assembly; (iv) from 1803–1810, by General Decaen, Captain-General of the French possessions east of the Cape.

The French laws in force in Mauritius in 1814 were (a) those enacted down to 1787 and collected in the *Code Delaleu*—so-called from the name of its compiler, a member of the *Conseil Supérieur*; (b) laws enacted between June 1787 and September 1803; (c) the *Code Decaen*—named after General Decaen, coming down to 1810, and containing the *arrêts* which successively introduced, with modifications, the *Code Civil* of 1805, the Code of Civil Procedure and the Code of Commerce. Neither the *Code Pénal* nor the

* The Governor in *Paul et Virginie.*

Code d'Instruction Criminelle was ever promulgated in Mauritius. For substantive criminal law, recourse was had till 1838 to the old French penal law of October 6, 1791; and the French Criminal Ordinance of 1670 regulated, in the main, criminal procedure in Mauritius till 1831. In 1838, a penal code, a local adaptation, in French and English, of the *Code Pénal*, was introduced and it is still in force. It maintains many of the special features of the French *Code Pénal*. Thus, in cases of murder (*assassinat*) as distinguished from manslaughter (*meurtre*), affirmative proof of premeditation is required, although it must be admitted that decisions of the French courts as to the instantaneous character that premeditation may assume, rob this distinction of some of its importance. The Code of Civil Procedure and the Code of Commerce have been largely replaced in Mauritius by local legislation. An Order in Council of 1841 directed that all Acts and Proclamations should be drawn up in English, and another of 1845 prescribed, as from July 15, 1847, the use of the same language in the proceedings of the courts. Evidence may be, and is, taken in French,[29] where the judges and counsel understand it (as they invariably do) without interpretation.

A Proclamation of April 29, 1815, confirmed the maintenance in the "dependencies" of Mauritius of the old French laws of that colony. The effect of this stipulation was to constitute the *Code Civil* of 1805, the Code of Civil Procedure and the Code of Commerce as the law of Seychelles. Seychelles was erected into a separate colony in 1903. The Order in Council which created its new legislature confirmed the operation in the colony of the laws in force in Mauritius in that year, but empowered the legislature of Seychelles to repeal any such law either in terms or by necessary implication. The French laws now in force in Seychelles are, therefore, those applicable to it as a "dependency" of Mauritius in 1803, unless affected by its own local legislation.

[29] Ord. 29 of 1891. *Aliter*, as regards the "creole" patois.

We come now to the Roman-Dutch law,[80] which is still the common law of Ceylon and the Union of South Africa, and held the same place in the legal system of British Guiana, till it was formally abrogated in 1917.

III. Roman-Dutch Law

THE development of the law in the Low Countries followed a course similar to that of its development in other parts of the Roman Empire. Each province had its own customs, which the Roman law did not supplant, and which, as time went on, were collected and published, expounded by courts and commentators and supplemented, as sources of law, by tentative efforts at codification and, as in France, by royal ordinances. In nearly all the provinces, however, the civil law, the study of which had revived throughout Europe from the eleventh century onwards, was recognised as an underlying authority. There was thus gradually built up a system of jurisprudence of which the Roman law is the framework, with Dutch additions, consisting of judgments, local laws and customs. To this system was given the now historic name of Roman-Dutch law.

The Dutch, as we have seen, carried their law with them, to their possessions "beyond the seas." The English rule of colonial administration was that the law of a conquered or ceded colony remained in force till it had been altered by competent authority. The Dutch rule was exactly the reverse. As formulated in the Instructions of 1623, it proclaimed the supremacy of the law of Holland "until such time as other special instructions shall be made." But it was not the entire body of Roman-Dutch law that was thus

[80] On the whole subject, see Burge, *Colonial and Foreign Law*, 2nd edition, Vol. I, pp. 6, *et seq* · and Lee, *Introduction to Roman-Dutch Law*, 3rd edition, 1931.

introduced. An elaborate compilation of those portions of the law that were considered suitable for colonial territories was prepared. It was promulgated for Batavia in 1642 and sanctioned by the Council of the United East India Company in 1650, and is known as the "Statutes of Batavia." Although these Statutes had the force of law only in the town and district of Batavia, they formed in practice a code for the whole of the dominions of the Dutch East India Company. A revised edition of the Statutes was issued in 1766. The Statutes of Batavia are sometimes described as the "Statutes of India" in order to mark the extent of their sway.

In the territories belonging to the Dutch West India Company, which was constituted in 1621, the law applicable was prescribed by an "Order of Government" sanctioned by the States-General in 1629, and based mainly on the Political Ordinance of 1580, which was the customary law of South Holland and Zeeland.

Ceylon

The maritime provinces of Ceylon were governed by the United East India Company from 1658 to 1796 and the Statutes of Batavia, both old and new, were in force.[31] These provinces were occupied by the British in 1796, and ceded to England at the Peace of Amiens in 1802. A proclamation dated September 23, 1796, enacted that:

> the administration of justice and police . . . should be thenceforth . . . exercised by all courts . . . according to the laws and institutions that subsisted under the ancient government of the United Provinces, subject to such deviations and alterations (as might be) by lawful authority ordained and published.

In terms of this proclamation, Roman-Dutch law is still the common law of the maritime provinces of Ceylon, except

(31) *Van Cleef's* case (1773), Vanderstraaten's Reports, 1869–1871, Appendix A, p. XXVII.

in the cases, on which something shall be said presently, where a personal law applies.[32] The reserved powers of "deviation" and "alteration" have, however, been freely exercised. English maritime,[33] and large portions of English commercial,[34] law have been introduced: the system of "fideicommissa" (*substitutions*) has been qualified by legislation following in some measure the English law of trusts, and the penal law and laws of evidence and civil and criminal procedure have been codified after the Indian models.

The province of Kandy, which was never occupied by the Dutch, was ceded to Great Britain on March 2, 1815, by a convention, which guaranteed to

> all classes of the people the safety of their persons and property, with their civil rights and immunities, according to the laws, institutions and customs, established amongst them.

The Kandyan law, a body of unwritten customary law introduced and developed by the original Aryan conquerors of the island and constituting, perhaps, at first the common law of the whole country, but gradually driven from the maritime provinces, is still in force and constitutes one of the most difficult systems of jurisprudence that the Courts have to administer. The Roman-Dutch law has been extended to the province of Kandy in cases for which the personal law does not provide.[35]

South Africa

The pivot of the influence of Roman-Dutch law in South Africa was Cape Colony. The Dutch established at Table Bay, in 1651–52, a settlement which was to form part of

[32] The Supreme Court has always held itself at liberty to consider whether any particular rule of Roman-Dutch law ever was introduced into Ceylon and this attitude has been approved by the Privy Council: See *Karonchihamy* v. *Angohamy* (1904), 8 N.L.R. 1: *British Petroleum Company* v. *A.G. of Ceylon* (1926) A.C. 417.

[33] Ord. 5 of 1852. [34] Ord 22 of 1866. [35] Ordinance 5 of 1852.

the East Indies, and to which, therefore, the Statutes of Batavia were applicable. In all cases in which the Statutes were silent, recourse was to be had to "the laws, statutes and customs of the United Netherlands," and, in the last resort, to the law of Rome.

Cape Colony was first occupied by a British force in 1795. The Treaty of Amiens restored it "to the Batavian Republic, in full sovereignty." It was again occupied by the British in 1806, and finally ceded to Great Britain by the Treaty of Paris in 1814. The law in force is the Roman-Dutch law as it existed at the Cape at the time of the second British occupation, *i.e.*, in 1806, subject to its development during the nineteenth century, and to statutory changes made since then, or modifications introduced by local customs.[36] Thus, for example, the practice of the Courts as regards procedure and evidence has been modified on English lines,[37] and the maritime and shipping law of England was adopted in 1879, so far as it was not inconsistent with any Ordinance or Act of Parliament in force in the colony.[38]

In Natal, which was separated from Cape Colony in 1845, the common law is the Roman-Dutch law, as accepted and administered by the legal tribunals at the Cape up to August 27 in that year, with local statutory modifications. In the Transvaal, under the regime of the Republic, the Roman-Dutch law was, in 1844, declared to serve "as a basis, yet upon a reasonable system and in accordance with the usage of South Africa, and for the benefit and welfare of the community."[39] This enactment was felt to be somewhat vague, and in 1858 it was provided that "the law-books of the State" should be, in order of authority, (i) the works of Van der Linden; (ii) the Commentaries of Van Leeuwen,

[36] *Seaville* v. *Colley* (1891), 9 Juta 39; *Scott* v. *A-G.* (1886), 11 P.D. 130, 131; *Denyssen* v. *Mostert* (1872), L.R. 4 P.C. at p. 253.

[37] Nathan, *Common Law of South Africa*, Vol. I, p. 20.

[38] No. 8 of 1879, ss. 1 and 2.

[39] Art. 31 of the Thirty-three Articles of April 9, 1844, ratified on May 23, 1849.

and (iii) the Introduction of Grotius.[40] On the annexa tion of the Transvaal in 1902, the maintenance in the colony of the Roman-Dutch law, " except in so far as it is modified by legislative enactment," was affirmed.[41] In the Orange Free State, Article 57 of the Constitution of February 23, 1854, declared the Roman-Dutch law to be the common law of the State. The term " Roman-Dutch law "—and here again the influence of the Cape asserted itself—was interpreted by a later enactment[42] to mean that law

> in so far as it was found in force in Cape Colony at the time of the appointment of English judges in the place of the previous existing Council of Justice.

In the Orange Free State, on its incorporation into the British Empire, Roman-Dutch law was, as in the case of the Transvaal, expressly preserved.[43]

British Guiana

The three settlements of Demerara, Essequibo and Berbice were held by the Dutch from the Peace of Breda in 1667 to the outbreak of war between Great Britain and Holland in 1795. They capitulated to a British fleet in 1796, were restored to Holland by the Treaty of Amiens in 1802, capitulated a second time to the British in 1803, and were finally ceded to Great Britain in 1814. They were united into the colony of British Guiana in 1831. The law in force in 1803 consisted of " the old law of Holland, peculiar vernacular laws, and the Roman law *in subsidium.*[44] Its maintenance was guaranteed by the capitulation.[45] But the usual inroads in favour of English maritime, commercial and criminal law followed, and it was abolished as

[40] Annexure No. 1 to Grondwet of 1858, Articles 1 and 2.
[41] Proclamation (Transvaal) No. 14 of 1902, Article 17.
[42] Law Book of the Orange Free State, Chapter i, 1, p. 8.
[43] Ordin. (O.R.C.) No. 3 of 1902.
[44] Rep. of W.I. Comm. relating to British Guiana, April 14, 1828, PP. 577, p. 3.
[45] Herts. Tr., Vol. 1., 367.

from January 1, 1917, by the Civil Justice Ordinance of 1916, pursuant to the reports of a local Commission and the Statute Law Committee.

IV. Spanish Law, Oriental Systems of Law, and Local Codes and Customs

THE law of Spain was gradually displaced in Gibraltar, although the peculiar character of that possession renders it difficult to say when the process began,[46] and in Trinidad,[46A] which was ceded to England in 1802 by the Treaty of Amiens, it would now govern only the construction of deeds, the form and operation of wills made, and rights of intestate succession acquired, before certain dates ranging from 1844 to 1846,[47] if it is conceivable that such issues should arise.

Malta, after a chequered history, was annexed to the British Crown by the Treaty of Paris in 1814. The law now in force in this island is based on the Roman law, as modified by legislation and usage, on the Code Rohan, promulgated in 1784 by a Grand Master of that name of the Knights of St. John dispersed by Napoleon in 1798, and on modern codes and ordinances.[48] Italian is the language of the Courts, though the Maltese as a whole neither speak nor understand it.

Of Oriental systems of law, something must, although

[46] *Jephson* v. *Riera* (1853), 3 Knapp, 133.

[46A] It was suggested to the Common Law Commission in British Guiana that Ordinance 4 of 1848 which was held to have abolished the law of Spain in Trinidad had done so only in so far as procedure was concerned, and that the case for total repeal rested merely on "judge-made law, assisted by a misconstruction of a Procedure Ordinance." (Report, p. 21; and Appendix III, pp. IX–XI.) The language of Ordinance 4 of 1848 seems to support this view. But the point possesses now only antiquarian interest. The *communis error*, if such it was, was validated by a declaratory Ordinance in 1914 (No 23 of 1914).

[47] *Jour. Comp. Leg.*, Vol. 2, 293: Vol. 7 N.S., p. 593, and Rep. W.I., Com. 1828, pp. 551, p. 6, for information as to the old law.

[48] *Gera* v. *Ciantar* (1887), 12 A.C. 566.

here much cannot, be said. In British India, the personal law of Hindus, Mahomedans and Buddhists,[48a] and in the Native States, the customary law of each State, *i.e.*, broadly speaking, Hindu and Mahomedan law, as modified by local and tribal usage, are administered by the Courts. In Cyprus, the continuance of the religious tribunal, by which the Ottoman sacred law was, prior to the British occupation, applied, was guaranteed by the Cyprus Convention of June 4, 1878, and under the recent reconstitution of the Courts, this guarantee has been both observed and extended.

The respect paid by England to the subsisting laws of the different countries of which her Empire is made up, has not been confined to cases in which it was imposed by Treaty or capitulation. In every part of East and West Africa, native laws and customs "not repugnant to natural justice" have been upheld. In Ceylon, a rough "Code," drawn up in 1806, regulates "the laws and usages of Mussulmans": the Malabars of the Northern Province have their "Tésawalamai."[49] The Mukuvars of Batticaloa had, at least till 1876, their own law of intestate succession. To come nearer home, even in the tiny Isle of Man "ancient customary law" has been recognised by the Courts.[50]

V. Conclusion

IT was inevitable that, in their main features, English criminal law and procedure and law of evidence should become law for the Empire generally and that the unification of colonial commercial law on English lines should be

[48a] See the Burma Laws Act (Act XIII of 1898) sec. 13(1). The Buddhist law, applied in Burma, is not in any way "Buddhistic," but is merely that development of archaic Hindu law, which the Burmese, when they adopted Buddhism, borrowed from the law books of the Buddhist schismatics from Hinduism and applied to themselves. *Phan Tiyok* v. *Lim Kyin Kauk* (1930) I.L.R. 8 Rangoon, 57.

[49] Where the Tésawalamai is silent, the Roman-Dutch law applies.

[50] *Cain* v. *Cain* (1838), 2 Moo. P.C. 222.

regarded as an ideal worthy of earnest pursuit. But in no single instance has England set aside *en bloc* by legislative act, a foreign system of jurisprudence to which she had once accorded juridical recognition, so long as its roots were still buried deep in the life and affections of the community. To this proposition, the case of British Guiana presents no exception. The situation was thus admirably described by the Common Law Commission of 1914:[81]

The criminal law and procedure, the civil procedure, the law of evidence and large sections of the commercial law have been borrowed wholesale from English models. The English rule of *stare decisis* replaces in practice the older principle laid down by Justinian.[82] Owing to the paucity of local decisions, this means reliance on English reports almost exclusively. Yet, while much has gone from the Roman-Dutch domain, much remains. Roman-Dutch law may be seldom quoted in the Courts and even then with little hope of the quotation seriously affecting the issue. . . . But it remains as an element of uncertainty. We have all the disadvantages of a mixed system without the elasticity of the Roman-Dutch jurisprudence.

It increases the work of both judge and counsel. It wastes time and is a source of expense. In this country it is not a living system. We have no resident Dutch population, and few even of the Dutch names survive. The colonists have no sentimental affection for any legal legacy of the Batavian Republic of 1803, or the Kingdom of the Netherlands of 1814. Our population is very mixed in race . . . it is overwhelmingly British in its attachments, traditions and sympathies. The West India Company was not a colonising factor. It was a purely trading concern. Real progress only began after the capture of 1796.

And yet, even where such conditions as these existed, the enactments introducing the common law of England into the colony excluded the English law of real property, retained, save on a few specified points, the Roman-Dutch assimilation of movable and immovable property, and preserved the Roman-Dutch rule of legitimation *per subsequens matrimonium*.

[81] Page 20.

[82] Code VIII, 45, 13. The principle is that judicial decisions are not in themselves binding but mere depositories of knowledge—*rationes scriptae*.

"*Il faut endormir,*" wrote Napoleon to Kléber in Egypt, "*le fanatisme, en attendant qu'on puisse le déraciner.*"[53] It was no Machiavellian spirit of this kind that prompted the regard shown by England, on each fresh conquest or cession of territory, for the attachment of her new subjects to their own common law. Nor was her attitude casually assumed in that fit of absent-mindedness in which, according to Professor Seeley, her "expansion" was effected. It was dictated by the real sympathies and the instinct for government of a great colonising Power, and it has contributed in no small measure to the enrichment of her jurisprudence and the durability of the Empire.

(53) *Correspondance,* Vol. 5., p. 574.

GREAT BRITAIN

I. The Social Policy of the Government

THE position of trade in Great Britain remains the barometer of British politics, and, as has been more than once remarked in these pages, the Government will finally be judged by the success or failure which follows its efforts to cope with the depression. The depression can only be dispelled by international action, and a heavy responsibility rests upon the Government—as indeed it does upon all Governments—in connection with the approaching World Economic Conference. But this does not mean that whatever is done in the interval, in the way of legislation or otherwise, is merely to tide over a transition period and does not therefore matter. The Conference might fail. Recovery may anyhow be a long time in coming, and there are calls which cannot be kept waiting indefinitely. Some of them, indeed, are themselves symptoms of a permanent trouble—the unemployment question is, in part at all events, as Mr. Chamberlain has pointed out, of this nature. Moreover, if recovery when it comes is to find our people fit to make the most of the new opportunities it brings, they must be in good fettle. At the same time, the greatest care has to be taken to avoid action likely still further to hamper our struggling industries, for the solution of the worst of our difficulties is bound up with their welfare, and no opportunity must be lost of promoting it. Domestic politics have far more than a merely secondary interest.

What, then, is the internal situation that faces the

Government at this moment, and how is it being dealt with? A more detailed account of the position of trade and industry will be found elsewhere.* For the purposes of this article a few statistics with regard to unemployment must suffice.

The latest figures for January 23, 1933, indicate a further increase of 179,000 in the terrible roll, as against December. The only crumb of comfort is that there is always a seasonal *increase of unemployment after Christmas—in January*, 1932, the figures rose by 218,000. Taking last year as a whole, unemployment has increased by over 200,000 on the figure for the preceding year, and according to the Ministry of Labour's report, "the position is rather less favourable than in 1931." One of the most serious features of the position is the increase by 125,000 in the number of unemployed who have been without a job for a year or longer. The percentage has mounted from 13·8 per cent. of the total in January to 19·1 per cent. of the total in December. It was thought that 1931 was the peak year of unemployment, and it is therefore particularly serious that there should be a definite increase in the average rate of unemployment among insured workers from 21·3 per cent. in 1931 to 22·1 per cent. in 1932.

At the same time there is some ground for hope that the worst at all events may be over. The settlement of reparations at Lausanne and the promise of Mr. Chamberlain that the question will not be reopened in spite of the war debts imbroglio should be productive of fruitful results. In the long run the new low rates of interest for both long and short term capital must be reflected in a fresh fillip to enterprise. Mr. Runciman pointed out on February 2 at St. Ives that there were "signs of distinct revival in the iron and steel districts." In the coal export trade, he said, there was "more activity than there had been since 1929," and in shipping, "while hundreds of ships were still lying idle, there were 200,000 tons of shipping less laid

* See page 348.

up than this time last year." Successful flotations in the iron and steel trades, the erection of new industries and the development of garden produce in the London district to a degree unknown until recently, have also been quoted as indicative of a general trade improvement. But whether hopeful views are justified or not—and it is as well to wait until they are reflected in the Board of Trade returns—there is certainly one new favourable factor of importance, the psychological factor. There are undoubtedly signs of returning confidence. It is felt that at any rate if we have not actually held our own, our neighbours have lost more ground than we have. A crash has been avoided, and that in itself is regarded as a half-way house back to prosperity.

But though the psychology of trade has improved, the condition of the unemployed has undoubtedly become worse. The dole, which was quite adequate for a few months' spell of unemployment, soon becomes insufficient when the months begin to lengthen into years. It will provide for the immediate necessities of day-to-day existence; it cannot provide the capital out of which boots and shoes can be repaired and new clothes bought, and all the other hundred and one items of recurring expenditure that every family has to meet. For this purpose a League of Personal Service, under the chairmanship of Lady Reading, has been formed, which is doing a great deal by voluntary effort through local centres in the depressed areas to provide the immediate necessities of clothing and shoe leather.

There is some criticism, by no means confined to the official Opposition, that the Government are relying too much on these charitable resources. The Prime Minister, in a broadcast speech from Lossiemouth on December 19, appealed for "personal co-operation in voluntary service." "Let each listener who is able to do so," he said, "contribute in cash or in kind" towards the National Council of Social Service. Everyone must help with local schemes for giving the unemployed something to do, "teaching men how they may be able to furnish their homes, to make mats

out of bits of old rope purchased for a few pence." "Report yourself," said the Prime Minister, "join up, contribute your knowledge." The same day the Minister of Labour announced in the House of Commons the grant of £10,000 for this kind of work. Both the sum and the Prime Minister's appeal were regarded as inadequate for such a situation.

A feeling is growing that for the problem, which the Prime Minister himself described as the existence of "two million permanently scrap," something is needed bolder and more imaginative than has at present been produced. Something, it is urged, must be done speedily to arrest the declining morale of the unemployed. Various plans have been put forward. For some months opinion has been groping around the experiment of a forty-hour week. It is argued that there ought to be a more equitable share of the opportunities for employment that remain. But the proposal finds no favour with the experts. They agree that the shortening of the working day would be a move in the right direction, but they insist that it could only be taken in agreement with competitors abroad. How difficult that is to achieve is illustrated by the fact that even the Washington Eight Hours Convention still lacks several important signatures, including that of Great Britain. The all-important question of wages, moreover, cannot be evaded.

Those who believe in stimulating employment by public loans for works of reproductive value are also lifting up their heads once more. They insist that there can be too much "economy," and that the first essential in recovery is for Whitehall to take off the brake so mercilessly applied in the crisis of August, 1931, on municipal expenditure. This has always been the view of the Labour party. It has never been abandoned by Mr. Lloyd George, who in every speech in the House of Commons makes a plea for land settlement on a grand scale. Sir Herbert Samuel, since he has retired from the Government to his eyrie on the corner

seat below the gangway, has also been urging a modified form of reconstruction loan for works that are demonstrably productive, and the ranks of these expansionists have received an accession of strength in Lord Snowden, who is now advocating schemes of housing, the development of water supply in the rural areas, land drainage and allotments which, in his judgment, would provide "self-supporting work for at least 300,000 men."

The Government, however, have other ideas. Their eyes are fixed upon the problem of keeping down taxation. What is called the "Treasury view," from the fact that it has the support of the permanent officials who advise the Chancellor of the Exchequer, prevails. It is pointed out that it costs £500 to put a man into employment, and that these schemes of reproductive employment, when adopted by the Labour Government, proved a ruinous failure, the unemployment figures mounting up from just over one million to just under three millions. A Bill to deal with the report of the Royal Commission is promised, but the only legislative measure yet produced by the Government which will have any direct and immediate bearing on the relief of unemployment is a Housing Bill. This is designed to end the housing subsidy. It discontinues the payment of subsidies under the Act of 1924, and provides that such subsidies shall not be granted in respect of housing proposals submitted after December 7, 1932. The Minister of Health, in introducing the Bill, also foreshadowed what he described as "a great drive" in slum clearance by which at least 12,000 houses would be cleared a year. The chorus of protest from housing experts was almost general. They stated that though they were by no means wedded to the subsidy, which had to a large extent kept up building costs, it was very doubtful whether private enterprise could provide houses at rents which the working classes can afford to pay. The proposal to clear away the slums at the rate of 12,000 houses a year, was scoffed at by Sir Ernest Simon, who estimated that at that rate it would be 200 years

before the last slum was removed. Sir Austen Chamberlain, in an impressive speech from his father's old seat in the House of Commons, expressed "his profound disappointment." Liberal and Labour members contended that by the Bill a great opportunity was being let slip of launching a building programme which would end evil housing conditions and make a big contributon to the immediate relief of unemployment. They argued that money was cheap, labour abundant, the trade unions in an amenable mood and building costs lower, and that these factors might never be as favourable again. The Liberal party threatened that if the Bill were not vastly improved in Committee it would join Labour in voting against it on the third reading.

This pressure on the Government has already led to concessions. Sir Hilton Young has made it clear that he regards 12,000 houses only as a minimum of slum clearance, which will be substantially increased each year. He has further recognised that, in the provision of new houses, there is bound to be a transitional period between the cessation of subsidised building and the beginning of unsubsidised building on a satisfactory scale. He has therefore promised to exercise in a more generous manner his powers of approving, for the purpose of the subsidy, such houses as had been planned and submitted for approval before the decision to terminate the subsidy was taken. To guard against the danger that private enterprise will provide houses only by fits and starts, he has undertaken that a departmental committee shall examine a proposal to establish a National Housing Corporation. In fact, he has gone a long way to meet, at any rate his non-party critics.

Apart from legislation, the Government are relying for the solution of unemployment to some extent on the reorganisation of certain essential industries. Indeed, they are introducing the principle of controlled production to an extent that would make the hair of the old-fashioned Con-

servative stand on end, if only he realised what was happening. There are people who argue, with some show of reason, that this Government has been more Socialist in outlook and legislation than either of the two previous Labour Governments. The pig quota is a case in point. This arrangement, voluntarily entered into with the exporting countries, and designed to restrict the import of bacon, came into operation for two months and has been extended for a further month. It will be followed this session by a Pig Quota Bill which aims at making permanent the regulation of bacon imports. The idea is that behind this shelter the farmers will reorganise their industry on the lines of the Danish principle of co-operation. Much will depend on how far the Government are prepared to introduce the principle of compulsion. The difficulty of all schemes of co-operative marketing in this country is that so many farmers have been ready to break their contracts with co-operative bacon factories the moment that they saw the chance of a better price for their pigs in the open market. This could only be prevented if the Government were prepared to apply to these contracts the force of law. The same considerations apply to the meat quota, which is likely to follow close upon the pig quota. Success depends upon how far the Government will go in for planning on a big scale.

As regards milk, a promising start has been made with the Report of the Milk Commission appointed under the Agricultural Marketing Act. The difficulty in the milk industry has been the widening gap between the price obtained by the producer and the price subsequently charged by the retailer, which has resulted in the market being flooded with manufactured milk at half the price of liquid milk. The object of the recommendations has been to strengthen the bargaining power of the producers in negotiating with distributors and manufacturers. The main proposal is the creation of an organisation which is to be the technical controller of all milk supplies. This organisation is to consist of three boards, a Central Producers' Board

with twelve regional committees, elected by registered producers, to control the dealings of its registered producers, and to assume the position and functions of owners of milk sold off farms, except in the case of milk retailed direct, a Central Dairymen's and Manufacturers' Board, and finally a Joint Milk Council to fix regional control and to arrange for co-operation between the two interests. The Council is to consist of the members of the two Central Boards, together with three additional members, one of whom is to be chairman. These three members are appointed by the Speaker and other outside authorities. Many farmers will no doubt maintain their traditional conservatism by condemning the whole scheme as cumbrous, and an intolerable interference with their right of managing their own industry as they think fit. But clearly, if the Government are to come to the assistance of agriculture, they must have some guarantee that the industry will be efficiently managed. As to the charge that the Commission wishes to set up a board of dictators, the Joint Council, whose impartiality is secured by the inclusion of the appointed members and chairman, will only be able to recommend the adoption of prices, marketing regulations, and a few other things of that kind. The only force behind them will be that of public opinion. Major Walter Elliot, the Minister of Agriculture, who spoke in the highest terms of the report of the Commission, has no illusions about the inefficiency of many branches of British agriculture, and has the courage to insist that the assistance of the Government for the depressed farmer must not be paid for by the consumer alone.

Next to take the railways—their position is relatively as bad as that of agriculture. The companies have had to face a decline in their gross receipts since 1930 of £32,000,000. Comparing the position to-day with that before the war, the situation was that after paying for coal and other non-labour charges, there was an income of £92,000,000 to meet a wage bill of £47,000,000, leaving

£45,000,000 for the stockholders. In 1932 the income was £100,000,000 and the wage bill £74,000,000. How is the position to be met? Obviously there can be no increase of freight or of fares, which are already 60 per cent. above the pre-war level. It is six months since the Salter Report recommended a co-ordination of rail and road transport, and a rearrangement of the incidence of taxation; and this seems to be the policy that the Government will follow. An announcement has already been made by the Minister of Transport in the House of Commons that legislation will be introduced to reorganise the system of licences for commercial vehicles and to regulate the hours and conditions of the workers on road vehicles in order to bring them up to the standards demanded by the railway unions. The question of heavier taxation of commercial vehicles will be postponed until the budget statement, but the general impression is that it will not go as far as the scale recommended in the Salter Report. The present position with regard to railway wages is explained on another page.*

The second line of attack on unemployment is through the budget. The Government believe that the most crushing weight on any trade recovery is the burden of direct taxation, and they are concentrating their efforts on a reduction of expenditure by means of administrative economies. The reports prepared by the self-appointed committees of Conservative back-benchers have provided material for action. The application in Circular 1,421 of the principle of a means test to secondary education is perhaps an instalment of further substantial economies to come.

Then there is the problem of income tax reduction. Suggestions have been made in the last few weeks that the Chancellor of the Exchequer should make a substantial reduction in the tax, counting on a resultant increase in trade to make up the deficit. Mr. Chamberlain, however, on January 28 pronounced against a reduction. He ob-

* See page 358.

viously considered that it involved an unbalanced budget. On the other hand, although, like everyone else, he wished to see a rise in prices, he did not see how that could be brought about by monetary reform alone. *The Times* hereupon pointed out that there was an alternative to aising prices by monetary action, *i.e.*, that of lowering taxation "so that at the same time purchasing power may be increased and a severe handicap both practical and psychological upon British industry may be lessened." The Government must see that it was not left between now and April with a choice between maintaining the present level of taxation (already beyond saturation point) and deliberately and dangerously unbalancing the budget. Sir Robert Horne, in a letter to *The Times* on February 7, admitted the risk of an unbalanced budget but insisted that "we have come through the first part of our troubles so much more successfully than we could have hoped, and our prospects are so much improved, that it would not be imprudent to take a measure of risk in forecasting our fortunes for the next few years." "At this moment of fate," he continued, "an act of faith and courage might yield more in material results through the stimulus that it would give to confidence than any 'safety first' precaution." He also advocated the suspension of the Sinking Fund, and pointed out that when in 1922, as Chancellor of the Exchequer, he adopted the same expedient in circumstances not altogether dissimilar from the present situation, it was attended by none of the disasters prophesied by the financial purists of the day. In actual fact, he realised a surplus of over £100,000,000 instead of the trifling sum of £700,000 for which he had budgeted; the main reasons for this surprising result were explained by Mr. Baldwin to be a buoyancy in the collection both of arrears and of current taxes and of a reduction in expenditure. *The Times* the same morning declared that the prevalent lack of confidence could be laid at the door of over-taxation. "It is hardly too much

to say," said the writer of its first leader, "that the Government may make or mar the prospects of the present political year, which has opened so brightly for it, accordin to whether they confront this problem of over-taxatio with courage or with timidity." It is obvious that economy and the reduction of taxation are the necessary corollaries of a decision not to adopt a development programme. If the Government do not themselves stimulate industry by expenditure, then they must make it possible for the private individual to do so.

There is one significant feature about the Government, and that is that it is in no sense doctrinaire. It would not be out of keeping with its record if it were to adopt such a Churchillian expedient as balancing the budget by anticipating an improvement in trade. Many argue that what is needed now is just this policy of enlightened opportunism. Circumstances have so changed, what were once regarded as landmarks have so shifted, and the old relations of cause and effect have been so revolutionised, that the most elementary economic watchwords are rapidly falling out of date.

The constant factor in the outlook of the vast Conservative mass which supports the Government is a belief in the efficacy of protection as the main remedy for unemployment. And the future solidarity of the National Government will largely depend on how far the purely protectionist point of view is likely to prevail. At present Ministers enjoy a substantial measure of support from a body of opinion which in ordinary circumstances would be in favour of free imports. The split, for instance, between the followers of Sir John Simon and those of Sir Herbert Samuel is a very real one. In contradistinction to the Samuelites, the Simonites feel that tariffs ought to be given a prolonged trial. What influenced them most in the debate on the Import Duties Bill was the argument that these tariffs were a bargaining weapon, and that, in the words of Mr. Runciman, they were "a tariff to end tariffs."

How far this point of view appeals to the orthodox Conservative will emerge when the process of bargaining begins. Mr. Chamberlain said in a recent speech that "twenty countries had expressed their willingness to reduce their tariffs against us in response and in agreement." But what will happen when these countries in return for the reduction of their own tariffs demand a reduction in the newly created tariffs of Great Britain? Do these tariffs involve a permanent and unalterable change in our economic attitude, or are they merely temporary counters in the struggle to get tariffs down all round? It is a question which goes to the root of the problem that the World Conference is to discuss. The Prime Minister, pressed in the House of Commons on the first day after the recess to state whether the Government would exert its energies to work for the removal of tariff barriers, was silent. Much will depend on the outcome of the visit of the British Ministers to Washington. It may be that if the debt negotiations* break down, the forces of economic nationalism in this country will be too strong to be controlled, and the World Conference on which so many hopes are fixed, which has already been so often postponed, and, according to the Prime Minister, cannot even now be held for at least three months, will end in failure. Such an outcome would undoubtedly imperil the future of the National Government. For its support from non-Conservative elements largely depends on the extent to which it pursues a non-party policy, and a definite abandonment of the attempt to solve the world's problems on international lines would drive voters who are not definitely attached to the Conservative party into opposition.

II. The Attitude of the Country

AMONG electors in the country, there is clearly still a firm determination to give the non-party administration the fairest possible trial. It is true that in the Exchange

* *A special article on this subject will be found on page 270.*

sion of Liverpool the National Government vote fell 0,000, but it remained nearly 3,000 over that of the ur candidate—in 1929 the Conservatives only scraped by 209 votes. The Labour vote increased by 1,500 e 1931 figures, but it was still 4,000 below the heights 929. When it is remembered that the Liverpool ployment figures are in the neighbourhood of 100,000, the administration of the Means Test has resulted in se bitterness, and that the Labour party is advocating peal, it is remarkable that the opponent of the National rnment did not score more heavily. The result of the Fife by-election is an even more impressive indication e desire of the country that the experiment of a onal Government should continue. The Conserva- in this case officially stood down, and a National ral was opposed by an Independent Conservative and ndependent Liberal. He was, however, returned majority of 9,000 over the Labour candidate, the pendent Conservative and Liberal candidates only g 4,404 and 2,296 votes respectively. In spite of onfusion amongst the older parties, the Labour vote increased by 1,000. There may be discontent with Government, but there is clearly no alternative to it esent.

t the Opposition forces show some signs of rallying. Lloyd George, who took an independent position at the on, has now definitely come out whole-heartedly st the Government. In a speech on the motion for djournment before Christmas he delivered a frontal on the Prime Minister's broadcast address from emouth.

thing that is of supreme importance (said Mr. Lloyd George) provide work. What does the Prime Minister propose— eating of small handicraft industries and turning land into ents and playing fields, without any indication where you are to get the land or how you are going to do it, reclaiming slag making a paddling pool, restoring an old Roman bridge and

making mats out of bits of old rope? That used to be called picking oakum. That is the work of the unemployed. That is what he calls the problem of the better use of enforced leisure, which is one of supreme importance for 3,000,000—and over 3,000,000, because the 250,000 black-coated have to be added to your 2,800,000, and your black-coated man is not even in the list. The right honourable gentleman went to Lossiemouth to file his petition in bankruptcy and to declare that there were no assets worth realising.

Mr. Lloyd George subsequently wrote to the Labour candidate for the Exchange division of Liverpool, wishing him success, and he celebrated his seventieth birthday with a farewell to "official Liberalism." For the official Liberal party led by Sir Herbert Samuel, which though out of the Government still sits on the Government side of the House of Commons, he professes to have no further use.

It doesn't seem (he told an interviewer) to be able to make up its mind whether it is for or against the Government. It prefers to stand at the cross-roads making silly little rushes down this way and that, now the other way and again back, and then standing hesitatingly until something or somebody pushes it somewhere else.

This severance, however, need not be taken very seriously. Mr. Lloyd George is making a bid for a reunited party in Opposition, and if he achieved his purpose he would certainly return to the forefront of the battle.

The position of the official Liberal party under Sir Herbert Samuel, never strong, is growing steadily weaker. The rank and file in the country are attracted by the vigorous lead given by Mr. Lloyd George, and are clamouring that the Liberal party in the House of Commons should cross the floor and occupy Opposition benches. The Devon and Cornwall Liberal Federation, for instance, passed a unanimous resolution calling upon the Parliamentary party to cease to support the National Government, either directly or indirectly. So serious indeed was the pressure that Sir Herbert Samuel called his followers together at a luncheon, the day before Parliament met after the Christmas recess, to address them on the

ition. Though he refused to commit himself to formal osition, he delivered a speech severely critical of the ole line of Government policy. He attacked them on ffs and put forward an urgent plea that Great Britain uld endeavour to form a low tariff union with the ultimate ect of destroying the network of tariffs which, in his gment, was strangling the world's trade. With that in view he proposed the modification of our "most oured nation" status. He also criticised the Govern- it's policy of economy and pressed for expenditure on 'oductive employment. He demanded the adoption of finite policy with regard to disarmament and the Man- rian question. The authority of the League must, he , be asserted without qualification. He condemned the sing proposals of the Government as inadequate for needs and opportunities of the moment. His speech is od example of the line that responsible criticism of the 'ernment is taking. At the Parliamentary party ting, however, which followed this speech, a resolution avour of the Liberal party going into opposition only ived the support of one single member. This does mean that the Liberal party is not likely to cross the · in the comparatively near future. It is said that e is even to-day a majority in favour of such action, it was thought that some opportunity ought to be given he Government to reply to Sir Herbert's criticism. ny case, some big issue of policy should, the Liberals say, 'ide the occasion for the severance of their connection, it should be one which will ensure practical unanimity. effectiveness of the Liberal party is, however, still red by internal schism, and even if Sir Herbert Samuel : to go into opposition, he would leave behind him followers of Sir John Simon. It cannot hope to provide sponsible alternative to the present Government until hieves some measure of unity.

or is there much more chance of an alternative Govern- t on the Labour side. The party are slowly rallying

their forces after the rout of October, 1931, and undoubtedly scores of thousands of working men who left them at the last election are returning to their old allegiance. It is estimated by shrewd political observers, for instance, that the discontent over the Means Test would win every seat in Durham for them. But there is no sign that they are capturing any of the great middle-class vote in the suburbs, or in the semi-industrialised constituencies in the counties, which alone could turn a propagandist Opposition party, such as they are, into a stable Government in office. In a word, they cannot expect any great measure of success without appealing to a type of voter that not even Mr. Ramsay MacDonald and Lord Snowden at the height of their prestige in the Labour movement ever really influenced.

The Labour party seems, indeed, to be deliberately going the very wo st way about getting back to power. There is no check in the steady drift to the left. The little group below the gangway led by Mr. Maxton continues to set the pace, and the intelligentsia are desperately trying to keep up with it. Major Attlee, the deputy leader of the Opposition, said at Leicester on January 23, "we shall have to take over the Bank of England and take control of the whole monetary machine." Sir Charles Trevelyan —catching the new inflection—declares that "the Labour party is frankly revolutionary." Sir Stafford Cripps goes one better and threatens, in the event of a Labour majority, an immediate demand for emergency powers, and if the House of Lords bars the path, he will require a dissolution. Such propaganda may raise the roof at socialist meetings, but it only frightens the ordinary voter outside. The average trade unionist is far more interested in high wages than in socialist theories. That is the great obstacle every extreme party has to face in this country. There is plenty of enthusiasm in their ranks. There was an enormous procession through the streets of London to Hyde Park the Sunday before the

opening of Parliament to protest against the operation of the Means Test. A great "call to action" campaign is in progress now. It is generally expected that at the forthcoming Rotherham by-election, a constituency which afforded one of the most extraordinary fluke wins of the last election for the National Government, the Labour candidate will be returned by a large majority. But that is no criterion of recovery even to the position of 1929. Labour has not yet won back the ear of the nation, which is too busy trying to catch the first sounds of returning prosperity, and certainly wants something more than socialist theories and denunciations of the Means Test. It is, indeed, frightened of losing such volume of employment as still remains.

The fact is, as Sir Herbert Samuel stated in his speech to the Liberal party—

> The nation cares very little about the fortunes of any political party, whether Conservative, Liberal or Socialist. . . The nation is thinking only how it can escape from the appalling economic condition that now prevails, how it can end the nightmare of unemployment.

Questions which have no bearing on the economic situation arouse only a flicker of interest. A decision in the Courts, for instance, has made totalisators on greyhound racecourses illegal. The Government has refused to alter the decision, and it has, indeed, stated that it will introduce legislation, if necessary, to diminish facilities for betting on greyhound racecourses. Ordinarily this would start a lively controversy on the whole subject of the ethics of gambling. But nobody except the persons immediately affected displayed the slightest interest on this occasion. Even the long awaited publication of the Report of the Royal Commission on unemployment insurance evoked little controversy. No doubt many of its recommendations will be incorporated in the promised Bill, the slight adjustment of benefits, for instance, the extension of the insurance scheme to children of 14, and the various financial schemes

designed to make the fund solvent and self-supporting. The only far-reaching change at present favoured by the Government is the appointment of the statutory commission recommended by the " dole " report as an instrument to supervise the working of unemployment insurance. The view of the signatories of this report was that no statutory commission could take from the Minister the responsibility for the administration of either the insurance scheme or the scheme for the payment of transitional benefits. Apparently the Government is of the opposite opinion, and the scheme which has been formulated with a view to inclusion in the Bill, is designed to co-ordinate all public assistance under an executive commission which would have security of tenure, and be completely independent of party changes in Parliament. At present, however, the country as a whole is far more interested in the regulation of unemployment pay. Economics dominate everything. Is the industrial situation going to improve materially? That is the answer to the question on which depend not merely individual reputations and the fortunes of political parties, or of a particular Government, but the future of government itself, and indeed the foundations of society as at present constituted.

CANADA.

I. Politics and Parties

ᵀHE opening of the year finds the seventeenth Federal Parliament of Canada at the midway milestone of its ıtory course and the Conservative Ministry of Mr. nett unshaken in its commanding position at Ottawa. latter came into power in July, 1930, laden to the wale with exuberant pledges that it would find remedies the serious unemployment which was then afflicting country, and equipped with a mandate for the enact- ıt of a high protectionist policy, proclaimed by its ɔcates as a certain panacea for the country's troubles. Ministry lost little time in giving practical effect to mandate; and in a special session in the autumn of ɔ and in the regular session of the following spring it l its powerful majority to raise the tariff duties to the ıest level in Canadian history, and to provide the ıestic manufacturers with safeguards against foreign petition such as they had never hoped for in their est dreams. But the brave hopes that Conservatives ished for their policy were doomed to disappointment ıugh the shattering impact of the world-wide depression, :h deepened steadily from the day that the new ernment took office, and the stars in their courses ıed to fight against the success of its policies. The :ts of a calamitous fall in commodity prices, especially re in the case of farm products, were aggravated by ıtisfactory crops; foreign markets lost their power of ırbing Canada's exportable surplus with a drastic

shrinkage in both imports and exports as a consequence; and unemployment mounted steadily until it has now reached dimensions three times as large as when the Government took office. Baffling problems, which had been temporarily obscured during the care-free boom days, emerged in connection with the great structure of railway systems and other physical equipment which the vaulting ambition of a young country, unchecked by the foresight of statesmanlike prevision, has insisted upon creating in anticipation of the needs of a population of thirty millions; and the obligations of the vast load of debt, which had been light-heartedly assumed for the construction of this equipment, became a nightmare as the value of the Canadian dollar in New York, where most of the debts were owed, shrank ominously. Thus from the start the present Government has found itself involved in a continuous encounter with desperate economic problems, and the best that can be said for it is that it has managed so far to prevent any disastrous *débâcle*. If its critics maintain that under its regime the economic plight of Canada has grown steadily worse, its supporters retort that at least it has maintained Canadian credit on a sound basis, that it has taken steps to ensure that no Canadian shall perish of starvation, and that by its tariff policy it has averted a wholesale collapse of the industrial machine. They also argue that a solution for the chief troubles of the Dominion is beyond its own power and can only be found through international action. But the extravagance of the hopes that the Conservatives raised during the last election campaign has been a millstone round their necks, and their opponents have lost no opportunity of mocking at the grim contrast between the glowing promises of Mr. Bennett and the record of their fulfilment.

So, since the first fine rapture of accession to office ended, the Ministry has walked a very thorny and difficult path, faced with a continuous barrage of criticism, often from normally friendly quarters, and beset with the im-

portunities of a host of disgruntled suppliants. The Premier, Mr. Bennett, is what is popularly described as a strong man, endowed with many qualifications for his high office: vigour, industry, eloquence, long experience of politics and large business affairs, and a willingness to face responsibilities. But the value of his good qualities is impaired, in the opinion of his critics, by certain defects of temper and judgment, and such a masterful personality as his has often a paralysing effect upon colleagues who, even in the judgment of their warmest supporters, are not a strong Cabinet team. The present Ministry then is, in the eyes of a portion of the Canadian public, credited with good intentions but inadequate accomplishment, and the tale of its sins of omission and commission grows as the months roll by. The prolongation of the depression made it in any case inevitable that even a Ministry giving abundant proofs of strength and resourcefulness would shed its popularity, and the evidence of by-elections reveals that the exasperation of the public at the continuance of hard times is finding expression in a stronger swing of the pendulum of popular favour against the Government than would be normally visible. For example, last June a by-election in New Brunswick, one of the safest Conservative strongholds in Canada, saw the Government majority cut down from 2,924 to 500, and in October a similar contest for a rural seat in Ontario found the previous Liberal majority of 349 increased sevenfold—two results exceedingly significant in view of the traditional disinclination of Canadian constituencies to vote against the candidates of the party in power. Moreover, the last provincial election in Quebec, which re-entrenched Premier Taschereau in power, revealed that the local Conservative renaissance, visible in 1930, had a feeble basis, and the distracted prairie country is in a mood of bitter resentment against the high tariff policies of the Bennett Ministry. So obviously the Government is committed henceforth to a very difficult defensive battle, and only the speedy return

of a reasonable degree of prosperity can bring hope (restoration of its full political fortunes.

The Government has done its best to extract polit credit from the agreements reached at the Ottawa C ference which occupied most of the time of Parliam during the first half of the present session, now interrup by a long recess. On the whole Ministers were reasona successful in countering the comprehensive and persist assault which the Liberals made upon the agreements, . the acidulated and carping spirit in which this attack ' pressed operated to dull the effectiveness of the justifia criticisms which were directed at the agreements. : country at large is prepared to give them a trial and defer its judgment until their practical results in tr exchanges can be appraised. During the session th were spasmodic debates on unemployment, currency flation, and other problems, but the Government succee(in staving off serious consideration of domestic issues u Parliament reassembles on January 30.

Unemployment, the railway question, the curre problem, and the budget will provide Parliament w the staple material of controversial debate, but the porte at Washington indicate that it will be spared the necess of dealing with the treaty about the St. Lawrence Wat way, which cannot now be ratified by the Senate at short session of the expiring Congress, and will proba be re-negotiated on a fresh basis by the incoming Den cratic Administration. Unemployment is now a runn sore of whose immediate alleviation there is no sign, a the Opposition, for its attack on the inadequacy a wastefulness of the Government's policy, will find abund ammunition in revelations that there have been seric scandals in connection with the administration of reli particularly in the province of Quebec, although 1 Federal Government has some justification for attributi these abuses to the laxity of provincial Administratio Some time ago the Bennett Ministry definitely committ

itself to the principle of a national scheme of unemployment insurance on a contributory basis, and has had its officials at work collecting data and doing other preliminary spade work. There are, however, constitutional difficulties which necessitate the co-operation of the provinces in any scheme, and accordingly the Prime Minister has summoned to meet in Ottawa on January 17 a Dominion provincial conference which will be attended by all the provincial premiers. At this conference the unemployment situation, and the correlated problem of unemployment insurance, will be the main subject of discussion, but it is expected that consideration will also be given to questions like the control of insurance companies, in which there is a conflict about jurisdiction between the federal and provincial authorities. Meanwhile, during the present winter the authorities have virtually abandoned the policy of special public works for the benefit of the unemployed, and are conserving their resources for direct relief.

The railway legislation which the Government introduced in the Senate last session embodied most of the recommendations of the Royal Commission on Railways and Transportation, of which Mr. Justice Duff was chairman, and it produced some instructive debates. But the evidence given by Mr. Beatty, the President of the Canadian Pacific Railway, before the railway committee of the Senate disclosed the fact that the C.P.R. was strongly opposed to the proposed arbitral tribunal which would enforce co-operative arrangements between the two railways in the interests of economy, and adjudicate disputes between them in this connection. Mr. Beatty further suggested that rather than entrust the direction of policies involving the fortunes of its vast properties to such a body, the directors of the C.P.R. would prefer a scheme of amalgamation for the two systems, provided that a minimum return upon the securities of the C.P.R. were guaranteed by the State. It was considered significant that Senator Dandurand, the Liberal leader in the Senate, practically endorsed

Mr. Beatty's opinion, and the view now gathers strengt
the C.P.R. and its powerful political friends are deter
to make a vigorous drive for a policy of amalgan
under private ownership. In that event a prot
parliamentary struggle can be predicted, for while s
merger might be endorsed by the Senate it would
with resolute opposition in the House of Commons,
the supporters of the public ownership of railways a
confined to any one party. Moreover the Prime Mi
is definitely pledged against the amalgamation o
railways, and the enforcement of the curtailment of se
which would be the chief justification for a merger, i
of obvious political perils for the party which spons

The currency problem has assumed great impo
during the past year, and the modest dose of inf
which the Government countenanced last Novemb
not availed to check, among the farmers and other int
who are suffering from low prices, an inflationist cam
which on the prairies has assumed the aspect of a
crusade with the banking system as its chief target
the main the people engaged in the great natural indu
many of whom contend that they cannot realise any be
from the preferences conceded by Great Britain i
Anglo-Canadian agreement until the Canadian dol
brought to a position of parity with the pound, are r
on the side of inflation. On the other side are the
and such interests as are faced with heavy debt oblig
in the United States, whose burden would be g
increased by the depreciation of the dollar to the le
sterling. Mr. Stevens, the Minister of Trade and
merce, is an ardent and avowed inflationist, but hi
leagues are sceptical about the value of this nostrun
prefer to pursue a Fabian policy until the World Eco
Conference has taken place. Meanwhile they have de
to defer the decennial revision of the Bank Act
the results of this meeting are known.

The thought of the budget opens up a very dark

for Ministers, for although the yield of the excise tax has exceeded the estimates, the returns of other items of revenue, notably customs, have fallen short of them, and it is already plain that at the end of the fiscal year the total revenues instead of providing, as expected, a small surplus over ordinary expenditures will show a substantial deficit. This in itself would be bad enough, but there will have to be added on the debit side some ten million dollars for capital expenditure, some fifty millions on account of the deficit on the Canadian National system, and at least twenty-five millions more for unemployment relief. So there is a well-founded apprehension that the aggregate federal deficit for the fiscal year 1931–32 will be well over one hundred million dollars, and, if the budget for the next fiscal year is to be balanced, an increase of direct taxation—which will not enhance the popularity of the Government—can hardly be avoided.

At the time of writing, the Government's search for a satisfactory personnel for the new Tariff Board, which is to apply the competitive principle with regard to British imports, has not been crowned with success, and considerable difficulties have arisen in connection with some loose ends of the Anglo-Canadian agreement which were left untied at the Conference. The issue of trade relations with Russia has also loomed up in connection, first with the timber contract concluded with the Soviets by a group of British importers, and, secondly, through a project for the barter of a large number of Canadian cattle for Russian oil and coal. The Ministry is involved in considerable embarrassment through the latter project because, while it is not satisfied about the soundness of the scheme, the cattle raisers of Canada, faced with a serious glut of stock and ruinously low prices, want to know why they should be denied the privilege of finding a new and useful market in Russia a few months after the American-controlled Aluminium Company was allowed to exchange its products for Russian oil.

Naturally, the Liberals, free from the responsibilities of office, and discerning signs of a rising tide of popular discontent with the Government, are in high feather of hope, and have decided that the time is ripe for an active platform and press campaign of propaganda against the Government. For its stimulation they have created for the first time a nation-wide party organisation styled the National Liberal Federation, of which Mr. Vincent Massey is president. Moreover, speeches which prominent Liberals have delivered in recent months indicate a readiness to move leftward and to sponsor more radical policies than the Liberal party has hitherto felt able to contemplate. For example, Mr. W. D. Euler, an ex-Minister who has always been counted a Liberal of the right wing, surprised Parliament just before it adjourned by his frank advocacy of a variety of advanced policies, including public ownership of all the railways. The Liberals promise a wholesale reversal of the present Government's tariff policy, and they advocate the establishment of a central bank of rediscount, a system of unemployment insurance and a reform of the electoral system through the introduction of proportional representation and the alternative vote. But they stop short of proposing any fundamental reorganisation of society and merely suggest ameliorative measures which will, in their view, produce a revival of prosperity and improve the lot of the farmers and urban workers. It can be surmised that the strength of the conservative element in the party, whose chief bell-wether is Premier Taschereau of Quebec, forbids the sponsorship of policies which might drive it into the Conservative camp, and it remains to be seen whether the Liberal programme will succeed in enlisting the enthusiasm of the hard-pressed farmers and restless urban population, whose temper is now more radical than ever before in Canadian history.

Moreover, for their support Liberalism has now to compete with the new Farmer-Labour party, which, despite the handicap of its clumsy title, the "Co-operative

Commonwealth Federation," has shown in the first six months of its existence a vigour disturbing to the managers of the two historic parties. Its leaders, who are being aided and abetted by groups of radical intellectuals in Montreal, Toronto, and other cities, aspire to secure within the fold of the Federation the affiliation of all the agrarian, labour, and socialist organisations in the Dominion, and to consolidate their support behind its candidates. Towards this goal they have already made considerable progress, and the recent adhesion of the United Farmers of Ontario, a body which has always been fearful of extremist paths, was a notable triumph. The Federation have nailed their colours to the mast of a full-blooded socialist programme, and profess that they will be content with nothing less than a drastic reorganisation of the economic structure on lines which will eliminate the motive of profits. They may find it a hard task to reconcile many farmers of the rugged individualist breed to some of their policies, but to-day the times are propitious as never before for a sympathetic reception of their indictment of the present economic system. The new party has a leader of attractive personality and considerable platform ability in Mr. J. S. Woodsworth, who has led the Labour group in the House of Commons, and one of his most effective lieutenants is Miss Agnes Macphail, the solitary feminine member of the House of Commons, who has developed into a very competent propagandist and, thanks to her influence with the farming folk of Ontario, has become a real force in politics. The party still lacks press support and a nation-wide organisation, but if the depression has not been mitigated before the next general election it may poll a formidable vote, particularly in the West, and upset the calculations of its older rivals. The Liberals, however, have more cause to dread its growth than the Conservatives, and they are striving to demonstrate that their own leftward advance is so great and so sincere as to render the existence of a new radical party superfluous.

II. Canadian-American Relations

FOR all the misgivings of the experts as to their economic effects, there are many Canadians in these post-Conference days who see in the Ottawa agreements implications far transcending their promised economic benefits. For them the Conference was not merely the climax of our long indignation over American fiscal policy; it marked also the turn in the tide of Americanisation. Henceforth we are to look more towards Great Britain and the Commonwealth and less to the United States. Closer co-operation in trade will re-knit the frayed bonds of Empire, give new life to the British tradition, and check a dependence upon our neighbour which might have ended in political, as in financial, absorption. The crisis being passed, these optimists confess fears which, if they really entertained them, they had previously not dared to express except in vague generalities.

Now, the forces which tend to bring the United States and Canada into closer relationship are so formidable that, if we had to depend upon trade arrangements within the Commonwealth as the main counter-agent, our prospect of a distinct and continuing national existence would be bleak indeed. Common origin and language; similarity of physical environment and common methods of adaptation to it; continual going and coming in the way of business, education, and pleasure; conscious imitation of institutions, manners, and diversions; these and other factors have combined to make of the English-speaking Canadian a man so like the American that the two can no longer be distinguished by Europeans, and of all the sharp contrasts in the texture of Canadian life none is more striking than that between the objective facts of Americanisation and the subjective antipathy of our people to the process. Little wonder that so penetrating a foreign observer as M. André

Siegfried, and certain less penetrating Canadians, can envisage only one outcome of this more or less biological assimilation. What they foresee is not a dramatic annexation arising out of a particular situation but a growing conviction—which cannot but lead to action—that two peoples with the same language, habits, and ideals, would gain much by uniting.

If this were the general conclusion among those who think about the future of this country in its juxtaposition to the American colossus, such a state of mind would in itself be a grave weakness. The conviction of permanency is probably an essential component of a constructive national spirit. It is worth while pointing out with emphasis that such a conviction of permanency, widespread and deeply imbedded, does exist among our people. The average man does not argue about it, he assumes it and builds upon it. Generally, too, he will tell you that he prefers his lot to that of the American not merely in these *anni terribiles* when he says that " they are worse off down there than we are " but in boom times as well. If you ask him why, he will probably give you three reasons : (1) that he likes being British ; (2) that he has greater security from crime ; (3) that he has more personal liberty. Asked to substantiate this last impression, he will point to the eighteenth amendment ; to legislation against cigarettes ; possibly, if his memory serves, to the " monkey trial " in Tennessee. Mere straws in the wind, these, but sufficient in his opinion to explain a vague but real repugnance.

Simple, prejudiced, possibly a little defensive though these sentiments may be, they yet make for national cohesion, and cannot be left out of account in any scientific analysis of our group life. Latterly, moreover, they have been reinforced by a new infusion of legitimate national pride. It is probably true that with the immigration of non-British stocks, added to the mere accumulation of generations separating us from the Motherland, loyalty to old allegiance was bound to weaken. But in its place has

come a rapid strengthening of the Canadian tradition. We look back now on a hundred years of fairly consistent growth, culminating in the completeness of substantial autonomy declared by the Statute of Westminster, and in acknowledged membership of the family of nations. In the Western Hemisphere a century is a longer time than in Europe, and our independence and international status have taken their place among our treasures. They have made us truly a people, conscious of possessing a distinct rôle in the world.

This development has removed any likelihood of amalgamation with the United States to a future so remote that it is a sheer waste of time to contemplate it. Among the nations of the earth few have firmer prospects of a destiny to be fashioned, so far as destiny is susceptible of human determination, by their own hands. Yet, though we may proceed with confidence in the preservation of our nationhood, it remains true that our fortunes will be affected, perhaps more than by anything else, by the tenor of our relations with our sole and gigantic neighbour. These relations, therefore, must and should hold the foreground of our diplomacy.

The fact that more than half our foreign trade is made up of imports from and exports to the United States is one of the more obvious reasons for the pre-eminence of that country in the world upon which we look out. It is conceivable that, as the protagonists of economic integration for the Commonwealth maintain, this state of affairs may be modified. But there are other reasons which, if less obvious, have almost equal weight. Thus our attitude in the matter of armaments and security has been determined mainly, if not always avowedly, by our position alongside a nation possessing great power and governed by such traditional principles as the Monroe doctrine and non-entanglement in foreign alliances. There is little to suggest that it will not continue to be so determined. One of the rare frank admissions, by a responsible statesman, of this

truth in its bearing on defence was made by Laurier to the astonished Dundonald in 1902—"You must not take the militia seriously, for though it is useful for suppressing internal disturbances, it will not be required for the defence of the country, as the Monroe doctrine protects us against enemy aggression." That leaves us with no potential enemy to arm against, unless it be the United States themselves, and against them armament is hopeless.

Similar considerations have determined the stand taken by Canada in a number of questions concerning the League of Nations, as for instance in the attack on Article 10 and the rejection of the Protocol of 1924. It is of prime importance to us not to become involved in any international action which might bring us into direct or indirect conflict with the United States. To the same order of ideas belonged, too, Mr. Meighen's intervention when, in 1921, the question of renewing the Japanese Alliance was brought before the Imperial Conference. There has been some tendency in Canada not merely to conciliate American opinion in Far Eastern affairs but to identify our interests in that portion of the globe with those of the United States rather than with Great Britain's. We have the same problem in regard to immigration, and the same sole concern in a peaceful and orderly China offering an open door to our products. The apparent move away from Washington and towards a conservative Whitehall, in the current Manchurian question, comes as something of a surprise in Canada and suggests motives not unconnected with the Ottawa *rapprochement*.

Geographic proximity and similarity of interest give us a vital concern in the general foreign policy of the United States. The bearing upon our welfare of her policy towards us in particular is naturally even more direct and palpable. Perhaps the most fundamental of all our external problems is how to live with dignity and without sacrifice of our just rights beside a neighbour so much more powerful than ourselves. As an inevitable consequence of our assumption

of control in the field of foreign affairs, we must proceed upon the hypothesis that, just as we would not expect or permit arbitrary interference from Westminster in the conduct of our American business, so we cannot count upon concrete and effective British aid for the enforcement of our rights in this domain. In our multifarious border business, in the regulation of fisheries, of aerial navigation and radio broadcasting, to mention only a few categories, those rights are always to the fore. Apart from our own efforts, we can count only upon the equity of the United States and the general strength of international organisation and opinion for their maintenance. There can be no question of war as their ultimate sanction.

The inference should be clear. The position of Canada gives her a special objective interest in the progress of internationalism in general, and in the establishment of machinery for the peaceful settlement of disputes between her and her neighbour. If the Commonwealth is not to be regarded as a defensive alliance—a view of which she, with her doctrine of "passive belligerency," has long refused to accept the consequences—she has no such alliances as those upon which a number of European States depend; nor can she invoke any balance of power principle. Nothing would strengthen her position so much as the participation of the United States in an effective League of Nations. But we in Canada, perhaps more than any Europeans, realise the remoteness of such a Utopia.

As very partial compensation for Wilson's failure in 1920 we welcomed the Briand-Kellogg Pact. Yet there was no general rejoicing when the United States, along with the other signatories, undertook not to seek by other than peaceful means the solution of her disputes. The calm in which that event was received in this country was significant. The practical importance to ourselves of every advance along these international lines is far from being generally understood throughout the country. In spite of our utterly exposed position as against the United States, we

ıot for many years suffered any national sense of rity. At one time our composure was partly due to e upon Empire defence. At the present time it ıts simply to an absence of apprehension of any : aggression from the south.

complain bitterly from time to time about American nce or injustice. Yet underlying our immediate tents there seems to be a fundamental faith, not yet uished by events, stronger indeed than we avow, in imate good will of our neighbours. Only such faith plain the absence of any general sense of insecurity midst. Only such faith, moreover, rather than any l conviction of the futility of international agreements, ccount for public indifference regarding the very ect condition of Canadian-American machinery for g disputes. The general arbitration treaty came to l in 1928 and has not been replaced. The Bryan of 1914 still stands, but provides only for investigation port, leaving the parties free after one year to act as will on any given dispute. The Briand-Kellogg excellent as far as it goes, provides no positive ement for conciliation or arbitration. As for the ational Joint Commission, that body has no comy jurisdiction except in cases of obstruction, pollution ersion of boundary waters. It may be used to te any dispute which both parties specifically consent mit to it, or to report (without binding effect) upon ıatter submitted by either. Between these stools ımber of conflicts may fall.

ıt now is the American attitude ? Owing presumably disparity in size, and to the orderliness of Canadian few Americans are conscious of any relations with ominion. A recent examination into the knowledge ıada and of the United States possessed by American Canadian school-children respectively revealed a st which would be scarcely less striking in the case ir elders. The Americans take us for granted ; we,

on the other hand, are acutely conscious of the clash of our interests with theirs. Increases in their tariff, excesses of zeal and jurisdiction on the part of their border and coastguard officials, are featured in our press and greeted with general indignation in our midst. Disputes apart, our newspapers devote generous space to political, social, and sporting events south of the line, while most of their press ignores us. Since the interchange of diplomatic missions between Washington and Ottawa, there have been signs of a movement on the American side to correct this state of affairs. Attention is being called to the fact that, whereas Latin-American affairs are intensively studied, Canada, which is of vastly greater economic significance, is being overlooked. It is of the utmost importance that this endeavour should prosper. For at times federal and local authorities have ridden rough-shod over our susceptibilities. The State Department has seemed to share the nation's general ignorance or indifference as to interests about which we felt keenly. There is at least a hope that more knowledge and understanding would carry with it increased consideration.

The *cause célèbre* of the Chicago diversion illustrates at once the American indifference mentioned above and the inadequacy of our arbitral arrangements. For eighteen years the Canadian Government kept forwarding to Washington protests against the drainage of a quantity of water from Lake Michigan which threatened to prejudice shipping facilities in the lower lakes and in the St. Lawrence river. These courteously firm Notes were duly acknowledged and filed away, and the diversion steadily mounted. The riparian States of the Union took up the cudgels, pursuing the Chicago Sanitary District through various authorities up to the Supreme Court. Chicago was uniformly rebuked, enjoined, and condemned, but nothing seemed to stop the flow through its canal. In Ontario and Quebec individuals and associations petitioned Ottawa, crying out against what they represented as a violation of the common

law of nations and the Waterways Treaty of 1909. But international law on riparian rights is far from definite, and the treaty of 1909 pretty clearly excludes Lake Michigan from the class of boundary waters. It was more than doubtful whether compulsory jurisdiction could be claimed for the International Joint Commission in the premises, and the Dominion Government, probably fearing that a request for voluntary arbitration would be refused, did nothing beyond sending Notes and maintaining a watching brief in the American litigation. No attempt appears to have been made by the Department of State in Washington to conciliate Canadian opinion; no suggestion seems to have been seriously entertained to deal with the problem on an international plane. The real and sensitive interest of the Dominion was for all substantial purposes ignored. The present state of the matter is that the treaty signed last summer for the joint development of the St. Lawrence Waterway stipulates that the diversion shall be limited by 1938 to a volume which will not appreciably lower lake and river levels. That treaty, however, which was only drafted after long and strenuous negotiation, is still a long way from ratification.

Even if satisfaction is given us in 1938 the memory of the Chicago diversion will long haunt Canadian-American relations. It will take its place with the Alaskan Boundary question among the arguments of those who counsel mistrust. There is no good reason why it could not have been quickly and smoothly disposed of, had there been an unambiguous agreement for arbitration by an impartial tribunal, at the request of either Government, of any matter involving common interests. The confident assumption of permanent peace is not sufficient. Peace requires safeguards. Since 1928 the United States have concluded a series of very general arbitration agreements with other countries; and it is scarcely conceivable that they would refuse to negotiate one with Canada. It is well known, indeed, that the Department of State opened

conversations with Great Britain with a view to replacing the expiring Bryce treaty of 1908, in which this Dominion participated, with an agreement of wider scope. For reasons that have not been made public that initiative was not followed up; but it remains still more of a mystery why we, in view of our specially intimate relations with the United States, should not have moved for a separate arrangement.

Another field in which a clear line of possible progress is marked out is the administration of what might be called our continental patrimony. Development of this kind has already gone far in the maritime and Great Lakes fisheries, where seasons and methods of operation are regulated by joint commissions. The draft treaty for improving the St. Lawrence adds another of these bodies, and it may well be that aerial navigation and the much disputed realm of radio broadcasting will sooner or later be brought under common government. Everywhere jealous nationalism has for centuries prevented reasonable and equitable exploitation of natural resources for the enhancement of human welfare. Whatever may be thought of its efficacy for the prevention of war, world organisation in the last dozen years has done much to break down this obstacle to economic and social progress. Canada and the United States, with a common language, parallel development, common devotion to a high material standard of living, and their tradition of peace, have a unique opportunity to lead in this advance towards international sanity.

The security of our future lies in the strengthening of the spirit and machinery of co-operation and the maintenance of firm understandings for the impartial and expeditious settlement of disputes when they arise. Nor does the whole burden of this duty rest upon the greater nation. Provocative comment upon every occasion when our interests come into conflict with those of our neighbour is a luxury which Canadian citizens and Canadian news-

papers professing a regard for the welfare of their country might wisely deny themselves. It adds nothing to our established resolution of independence; it detracts from our national dignity and engenders a habit of irascibility which prevents clear perception of the realities of our position and the steady but unchallenging course which we must follow.

Canada.
January, 1933.

AUSTRALIA

I. The Federal Chronicle

THE successful conversion of the New South \ loan on the London market, and the hopes of fu conversions in the cheap money market overseas, reduc in interest rates on Treasury bills from 4 to 3½ per (and in deposit rates by the Commonwealth Bank an(Savings Bank in Australia, the prospect of a good s(and of sane government, produced a cheerier outlook the business world has known for nearly three years. stock market rose steadily, a gratifying indication of] renewed, with some justification in the success o efforts of management in the overhaul of business. In the widespread feeling that the worst was past ex some apprehension that, particularly in politics, e still necessary would be relaxed.

A welcome sign of a new chapter in affairs was that, the financial year ending on June 30, six of the seven go ments had presented their budgets before the en September. All were able to show that they woul within their allowance of deficits, though by the u characteristically different methods. For exampl(New South Wales the Stevens Government were pre] with economies on a scale which vied with the specta deficits of the State in recent years; in Queenslanc outstanding feature was an increase of the income and the reimposition of the super land tax. The met of the other States lay between these two, as the pol situation permitted or demanded. The Commonw surplus of £12,000 was achieved by bringing in a surpl £1,301,000 from the preceding year. Further econo were shown in the salaries of Members of Parlian

Ministers and public servants, and in old age and invalid pensions. By November a change had taken place. Increased imports indicated an improvement of £3½ millions on the estimates of customs revenue. Of this the Government devoted £1,300,000 to the reduction of the land tax by one-third, and provision was made for further relief in special consideration of losses incurred by the fall in the price of primary products; the exemption from the 10 per cent. super-tax on income from property was raised at a loss to revenue of about £500,000, and the sales and primage taxes were lifted from various items, including books. The announcement was accompanied or followed by hopes and warnings—hopes that an improved financial position might permit further remissions, warnings that circumstances might make the remissions merely temporary. These warnings were recalled when in December it became clear that the Hoover arrangement was not to be continued, and that in consequence the payments to the British Government which were not budgeted for might have to be resumed. At present it is understood that these payments may still be deferred.*

The increase of customs revenue was viewed with mixed feelings. Manufacturers and the Opposition expressed alarm at the menace to Australian industries of increased imports; the Commonwealth Statistician showed anxiety about the possible effects on London balances, and therefore on government overseas finance, and the producer must have drawn some comfort from the feeling that his exchange bonus was better assured. Opinion generally, keyed to hopefulness, was content to accept the increase of imports as an indication that things were improving.

The first tariff measure of the Commonwealth Government was to abolish the emergency prohibitions of imports

* The Government, it is understood, will not ask for these payments at this juncture, foreign payments being still suspended under the Lausanne agreement. (South Africa has continued its own payments throughout.) (See *The Times*, December 20, 1932.)

established by the Scullin Government, and to reduce a number of the duties which had been imposed against or without the advice of the Tariff Board. Their next was to introduce into Parliament the legislation necessary to approve and to carry out the Ottawa Agreement. The Agreement was assailed on constitutional grounds—first, that it tied up the Commonwealth to the British Government in matters which were essentially matters of domestic policy; secondly, that it abdicated to the Tariff Board functions which were political in character, and therefore appropriate only to Parliament. The betrayal of Australian industry by Mr. Bruce and Mr. Gullett at Ottawa was denounced with ferocity in exclusionist newspapers, and the apprehended shock to industry and employment drove Mr. Fenton, Mr. Lyons's fellow secessionist from the Scullin Government, to resignation of the portfolio of Customs. A staunchly protectionist but measured statement which perhaps expresses the mean of Australian opinion is that of the *Sydney Bulletin*: that the Australian object at the Conference was to give our primary industries a lift, that the thing to be avoided if possible was doing it at the expense of our secondary industries, and that in this Mr. Bruce and his colleagues seemed to have succeeded. Confirmation of this view of policy may be found in the implementing tariff, for the increased preference to Great Britain was effected in about 20 cases by a reduction of the duty on British goods and in about 440 by an increase in the duty on non-British goods. Nevertheless, the Opposition opposed; a highly dissatisfied Country party was confirmed in its policy of seeking compensations. The Agreement was approved after stormy debates; the tariff will hang on for debate at a later stage. Meantime it is in force.

The resignation of Mr. Fenton has been referred to. The Government had a heavier loss in the resignation of Mr. Hawker, Minister for Commerce, on a point of conscience. Mr. Hawker had during his election campaign

declared that he would vote for the reduction of members' salaries to £600 a year. The Government decided on a reduction to £750, and on a private member moving that it should be £600, Mr. Hawker resigned office in order to be free to vote for the motion. Mr. Hawker was one of the ablest members of the Ministry, and one of the rare men who represent country interests with statesmanship and not with a merely sectional outlook and aim.

The production of budgets enabled the Premiers to take up with more knowledge the measures possible for carrying out their resolution of July,* whereby in addition to meeting interest obligations and continuing progressively to reduce budget deficits, they were to conduct policy with a view to reviving industry so as to restore normal employment. The last clause implied, of course, that they wanted to borrow more money, to borrow and spend it outside the progressively to be balanced budgets; and there were questions of how to borrow, and how much to borrow, which required the authority of the Loan Council and agreement with the Commonwealth and trading banks. When the Premiers' Conference assembled in October the majority of the Premiers, in accord with the Commonwealth Bank, and all but one of the trading banks, desired to see a substantial part of the financial effort directed towards a beginning of the process of funding the floating debt. But the Premier of New South Wales believes that the time has not yet come when the expansion of credit of the last three years can be beneficially arrested by absorbing floating debt in a long-term loan. When the Conference had agreed upon an £8 million loan for ten years at 3¾ per cent., he desired that the whole should be devoted to public works, other government needs being financed by Treasury bills. His colleagues demurred, and the usual compromise resulted in an agreement whereby the £8 millions was to be divided equally between redemption of Treasury bills and public works to reduce

* See THE ROUND TABLE, No. 89, December, 1932, p. 200.

unemployment. The banks agreed to underwrite the loa and had to carry the greater part of it, for public subscri tions amounted to less than three millions.

The relief in various forms of "primary producers is the most pervasive subject in Australian politics to-da and has even overshadowed the perennial industr questions. Like these, it provides at once an embarras ment to governments and an arena of competition betwe State and Commonwealth, for either incurs the reproa of lukewarmness at its peril. At the October Conferen of Premiers there was an opinion favourable to the creati of a fund of £2½ millions to be made available to the Stat for the assistance of wheat growers. The Commonweal Government decided to provide £1¼ millions for distrib tion by the States among farmers suffering the greate hardships, and £1 per ton on superphosphates purchas and delivered before June, 1933. The country interes challenged this as inequitable, for the principle of greate need would involve delay and perhaps humiliating inquir and would exclude large numbers from any share; als the superphosphate requirements of land varied greatl The form of aid was attacked from an economic standpoi —greatest need might stand for greatest inefficiency in tl farmer, and would support wheat production in unsuitab conditions to the detriment of better farming and bett lands. An export bounty of 4d. or 6d. a bushel w demanded; threats to withhold wheat from the mark became common, and at one place in Western Austral a strike was organised. Agitation against the Governme plan was reinforced by a formidable political movement Parliament which the Ministry soon found it impossible ignore. They abandoned the superphosphate scheme, ar raising their subvention to £2 millions, left it to the State Governments to determine the method of distributio according to their respective conditions, among whic of course, were political conditions.

After wheat, wool. In August, the Government appoint

a committee mainly representative of the wool growers, to report on the conditions of the industry, and in particular as to the measures that might be taken by the industry itself and any other industries rather than by Government, to alleviate its distresses. The Committee's Report was presented in October. It pointed out that the average price for the last two years was 8½d. per lb., and that the average cost of production, exclusive of interest on capital, was 8½d. on the sheep stations and 9½d. per lb. at sales. Interest was put at 4½d. per lb. "Hitherto, the wool growers have managed to continue production by getting further into debt, and by neglecting maintenance." It was reasonable to expect some improvement in prices, but not a recovery to the high levels preceding the slump. Costs, therefore, must be attacked for the permanent rehabilitation of the industry, apart from present urgent necessities. The tariff was responsible for 2d. a lb. in the cost of production. Railway freights on wool, and on the requirements of the wool producer, had been on a discriminatory basis related to the supposed capacity of the industry to bear high rates—the recent action of Western Australia in reducing freights by 30 per cent. was commended, for example. Governments should also reduce port dues and charges and the land tax. Shipping companies, selling brokers and financial institutions were enjoined to make reductions in charges, not merely for the sake of the growers, but, in the case of the financial and selling institutions, for the sake of their own revenues and solvency. The buyer should surrender the "draft," an allowance of 1 lb. per cwt. The references to interest rates are rather ambiguous. Reluctance to advert to the method of legislative intervention avoids even any reference to the 22½ per cent. reductions imposed last year. But reductions in interest were imperative, and were taking place though slowly and reluctantly. There is an expression of sympathy for the creditor (which is rare in these days), but a candid admission of "even greater sympathy

for the wool-growing industry." "In the present situation contributions to the reduction of costs are required from all sources, however much they may all with one accord begin to make excuses." As to price, the fall in terms of Australian currency was mitigated by the exchange, in spite of some incredulity among growers; the exchange might be restored to 30 per cent., the 1931 level, or even increased. The Report points out that the Commonwealth Bank Board has repeatedly refused to recognise that the exchange rate should be used to support prices. While emphasising the independent status of the Board as a condition of public confidence, and making no recommendation to the Government on exchange policy, it directs the attention of the Board to the precarious state of the industry and the inadequacy of cost reductions to meet the situation, and suggests that the Government should do all in its power to make the maintenance or even the increase of the rate economically possible for the Bank. The Government "would not be interfering with the freedom of the Board if it gave a more positive undertaking of liability for the cost of exchange policy administered by the Bank in the interests of the Nation rather than in the interests of the Bank itself as a trading institution." Thus, in the Report of the Wool Inquiry Committee, we visualise "the Government behind the Bank," as in the Premiers' Conference the picture is "the Bank behind the Government. Finally, while growers had always consistently opposed any form of government control or fixation of prices, any relapse in prices would constitute a national calamity demanding exceptional measures. The Report recommended the establishment of a wool executive representative of the industry, to take prompt and effective measures should the occasion arise, and the Government should take power, at the request of the Committee, to prohibit the exportation of wool except on conditions as to minimum reserve price. Should it be necessary to secure financial provision in order to hold over

ol, the executive should confer with the Commonwealth ›vernment for the purpose of securing funds.

None of the delicacy and reticences which mark the port of the Wool Inquiry Committee are to be found the political agitations in or outside Parliament, of the untry party or of producers' leagues. "Writing down" l "writing off" taste sweet in the mouth of the debtor, l government debtors in particular have faith that rds may be turned into works. Many of them do not ait political action: they practise various forms of istance, and an "utter disregard" of the "ordinary nciples of business probity" by settlers, prompts : Victorian Closer Settlement Board to demand indenence from political control as an essential condition carrying on. The easier conditions of government otors stimulate other debtors to seek the same haven; : transfer of producers' mortgages to government, inst the issue of government securities, is a happy ought for satisfying creditors and debtors alike. It has t yet commended itself to any government. Granting : wisdom or necessity of the temporary measures of ergency relief provided by parliaments for mortgagors the expense of creditors, there has been no change of iditions to warrant their abandonment. But their ension in time and scope involves Parliament in a game consequences without rules. "Oh, what a tangled web weave, when first we venture to relieve," was the lection of a worried Attorney-General in Victoria arting under the attacks of Government supporters. *: dieux ont soif*, and in the celebration of sacrifice there some confusion of gods and victims: strange beings ay themselves in godlike vestments and crowd on ympus. The general hopefulness that "Parliament will something" makes it increasingly difficult to distinish between inability and unwillingness to pay, and the nand for relief which shall neither be delayed nor be of :h a nature as to wound the self-respect of the debtor

by impertinent inquiry, makes it hard to make of the measures anything like a "business proposition" which may serve as a means of strengthening the economic structure. The position provides embarrassment for governments with an awareness of ulterior effects. In New South Wales, the Government has met it from Labour in the Legislative Council; in South Australia, the farmer sympathies of an anti-Labour Opposition in one instance drove the Labour Government to threaten resignation on an attempt to overturn a judgment of the Supreme Court in a particular case. In Victoria, a Government, with a large majority over Labour in an Assembly elected a few months ago, had to submit to seeing the business of the House taken out of its hands on the Financial Emergency (Mortgages) Bill, with the result that a chain of irresponsible and uncoordinated amendments provoked a memorandum from the parliamentary draughtsman reporting that the position could not be cured by drafting skill, since it resulted as much from the clash of principles as from the confusion of words, and that the passing of the Bill as it stood might result in something approaching legislative chaos.

Some of the economic results are already apparent, and the cheapness of money mocks those who have need of it, but whose credit is being destroyed by their own action. The sources of money for mortgages on land are dried up, with an ultimate effect on the land values which that money sustains. Investment generally will find its own course; trustees no doubt are embarrassed—government securities alone remain for them It is one of the ironies of to-day that the restricted area of trustee investments tends to be regarded from the standpoint less of the protection of beneficiaries than of the needs of borrowers.

The path of governments in other respects has been hard. The general recognition of the need for economy does not stay the claim for special consideration of deserving objects of expenditure, nor the need for balancing budgets

prevent resistance to specific taxation proposals. Some of the disorders of our affairs it is sought to cure by further resort to independent and non-political boards on matters in which political pressure distorts public administration to the impoverishment of the Exchequer; resistance is less on constitutional grounds than on appeals for an assurance of the "sympathetic consideration," which Ministerial discretion offers. Another characteristic of the day marks an inevitable departure from the traditions of constitutional government: a considerable part of the work of a Ministry is in reversing the measures of its predecessors both in legislation and administration; it is facilitated by the liberal devolution of powers to the Executive. Mr. Stevens has to undo the work of Mr. Lang, and Mr. Forgan Smith in Queensland is busy on the doings of Mr. Moore. Mr. Lang gives notice that when he returns to power he will not recognise the appointments of Mr. Stevens, who has displaced, for reasons that all the world may read, various appointees of Mr. Lang. But perhaps the trial may not come, for Mr. Lang is supposed to be thinking of Commonwealth rather than of State politics, and has his eye on Mr. Scullin rather than on Mr. Stevens. The completeness of our revolution may be seen when it is the *Sydney Bulletin* which proposes that democracy shall be protected against itself by constitutional conditions imposed on parliamentary borrowing, and declares that "what self-governing rights demand is that there shall be some authority (and what authority can it be except the Governor) which shall satisfy itself that a Government is in step with the people and which, if it cannot so satisfy itself, shall be required to send the Government to the people for their judgment."*

* The *Sydney Bulletin*, October 26, 1932.

Australia

II. The Political Parties To-day

AT the present time Labour is in power in South Australia and Queensland. But the Labour Government in South Australia is disowned by the Trades Hall, and the Premier, Mr. Hill, is excommunicated because he supports the Premiers' Plan. In Queensland the Government of Mr. Forgan Smith is virtually the nominee of that powerful but moderate union, the Australian Workers' Union. In the Commonwealth and the other four States the parties in power can only be described generically as non-Labour parties. In several States a party called the United Australia party comprises the elements opposed to Labour, but opposition to Labour is their chief bond of union. Radicals, individualists, conservatives, protectionists, free-traders and ex-Labour men dissatisfied with the forces which at present sway the Labour party are united in a single party, but not in sentiment and ideas.

The powerful country interests have always been particularly opposed to tariff extremism and to the industrial privileges fought for by the Labour unions; in their attitude to many social questions indeed they are the most conservative of the three parties. For a considerable number of years groups were formed by country members inside the Liberal and non-Labour parties, but for various reasons they have separated from them and organised themselves on the basis of class interest, seeking to secure their own point of view by dissociating themselves from the other parties, and by giving support to either of them in return for benefits received. This attitude has compelled the adoption of a new form of Ministry—the composite Ministry. The anti-Labour groups retain their separate allegiance to their own party organisations and go to the polls as separate parties; their members support the same Ministry in the House, and oppose one another at the polls.

This grouping of parties may be briefly described as the ganisation of two "interests" for political purposes ainst the rest of the community. The agrarians and the bour party each stand for homogeneous interests; and litical experience usually shows that in either case a direct igle-minded influence is paramount. In Australia the large eponderance of voting power which is apparently possessed the other sections of the community is too often feated by the parties which have a particular economic is, a result which is assisted by the fact that the Labour te in country districts is usually cast against the United istralia party, and agrarians very often depend upon it at ctions.

All parties would probably resent this summary of the sition. The Country party considers that in a country e Australia rural interests should prevail and secure litical recognition above all others. Labour not only ies on the superior claim of the less fortunate classes; it o suggests that it has, in socialism, the only existing litical scheme for reorganising society on an ethical sis. The United Australia party disclaims toryism and ints to a century of progress under the stimulus of liberal as; it stands for constitutional government after the ssical tradition which it considers to be threatened by rties with a solely material basis. Adverse party criticism, course, puts these claims in another light. Both the other rties see the influence of the tory capitalist, the exploiter the primary producer as well as of the worker, behind the ited Australia party. The liberal suggests that the litical demands of the man on the land are essentially ochial, the most obstinate impediment to financial onstruction. The traditional expenditure on public rks—"Roads and Bridges"—no longer satisfies him. He s his power to exact all sorts of help from the State, istance in marketing, the repair of misfortunes due to act of God, whether by drought, fire, or flood, and en direct financial advances.

Few politicians of any experience are afraid of the Labour party attempting to put Marxian socialism into operation. They do, however, believe that there is a serious danger of domination by the Labour machine in the interests of a class. Such domination would be purely dynamic; it would support no spiritual or ideological system, and it would bring about no social reconstruction. Labour would exercise irresponsible control by seizing the administrative machine and establishing a kind of Labour fascism or bolshevism, which would transfer to members of the party the power and privileges once possessed by the old ruling or capitalist classes; the rank and file would have the satisfaction of seeing their own class in the ascendant. After the changes that have taken place in the intimate structure of modern society, there is no doubt that the Labour form of organisation, the psychology of the workers, and the peculiar appeal of solidarity make such a dictatorship quite a possibility. The position attained by Mr. Lang, and his retention of the loyalty of nearly half the electorate after a wholly irrational and destructive term of power, are strong evidence in support of this view.

The truth is that the State in modern times has abandoned its old *laissez faire* attitude in response to the claim that it should secure social amenities and protection for the weak. This done, it found that considerations of a material character exercise a far more potent influence than sentiment or justice. The parties group themselves round "interests," and the two interests most easily organised are those of the worker and the primary producer. They alone are positive in their objective and aggressive in their political methods, and so they dominate the political scene. Of the two, Labour is easily the most powerful. Its leaders show far more political sense, and its contact with the daily life of the worker gives it a power of interpreting the feelings of the masses which, to the intellectual, seem quite inarticulate. It preaches class-consciousness, rightly from its own point of view, because a class-conscious

proletariate is almost impossible to defeat. The power of the agrarians is limited by the fact that they have no representation in the towns. In the country they are more powerful than the United Australia party except when a wave of feeling against Labour is sweeping through the constituencies. On such occasions the Australia party reaps the benefit. Thus the political power of the agrarian party can never become complete without the assistance of other parties. In a very real sense it has power without responsibility.

It would, of course, be absurd to suggest that the non-Labour sections of which the United Australia party is composed are not inspired by material as well as other considerations. Conservatism, capital, land, wool, finance, commerce—all of them "interests" in the traditional sense—do stand behind the party. But these sections have little common ground; their objectives are diverse, and they have practically no organisation. More important, they are always on the defensive. It pays the Labour and Country parties to talk of the money power, of "Flinders Lane" or "Pitt Street," though as political influences they hardly exist. Wealth is indeed a handicap in Australian politics, and the elements we have just mentioned—all important in the Australian economic system—are very scantily represented on legislative bodies and have little influence on political decisions. This too produces a lack of responsibility and a distressing absence of public spirit.

It is a bad thing for financial leadership to be thus divorced from political leadership. The conservative sections are willing to make big concessions on matters of policy as long as financial control is not taken from them. They throw open the non-Labour leadership to the leaders of the more radical parties, men with a wide popular appeal, in the hope of detaching support from the extremists. This has been done for years in Victoria, where we find the fierce challenger of the financial interests of one decade holding back the challenger of the next—

McCulloch in the 'sixties and 'seventies, Graham Berry in the 'seventies and 'eighties, Deakin in the 'eighties and 'nineties, Turner in the 'nineties and the next decade, and, in New South Wales, Hughes in the pre-war and post-war decades, are all illustrations of this principle. The Liberal leader always leads a miscellaneous band whose main bond of union is that they are less extreme than the dominant Labour leaders and not so sectional as the agrarians.

With the surrender to State socialism, politics in Australia have changed from a conflict of sentiments and ideas to a conflict of interests. The manifold economic and financial issues that arise in connection with the formulation of policy for State business, and intricate problems of administration, complicate every political development, and furnish occasions for attack and intrigue, for opportunism of the most destructive type, and for a ruinous parochialism. Each party must orient its policy towards the major questions which affect the State services, cater for State servants and State customers, and assuage taxpayers as best it may. Responsible government, which alone can integrate the forces capable of enabling the community to exercise its common will, tends to be destroyed.

The manufacturing interest which has grown up round the Australian tariff operates in an erratic way in this field. It is naturally aggressive, the Australian tariff is all the time fighting against nature, and the majority of manufacturers are engaged in a struggle for their economic existence, of which the tariff is a condition. Being capitalists, they are naturally opposed to Labour's industrial and socialist policy, and are thus found voting with the non-Labour parties. But the Labour parties are now more fanatically protectionist than any other section of the community; Labour Ministers of Customs forgive the capitalism of manufacturers who support extreme tariffs, and give them an exceptionally good deal. In return Labour, even when led by Mr. Lang, has raised large contributions from manufacturing groups. The policy of the manufacturer is

great extent determined by the numerous small indus- units which the tariff has called into existence, and h form the majority in chambers of manufacturers. our policy aims more and more at attaining class ination and monopoly through such devices as a erence in everything to unionists or resistance to the ds of wage tribunals. The concessions that struggling ufacturing groups are prepared to make in return ariff advantages are exceedingly embarrassing to non- our leaders.

ie Nationalist and United Australia parties lack then solid support of a united section of the community a great tradition and consistent philosophy, like the older parties in Great Britain, the Conservatives and rals. They are usually led by a man with radical encies and popular appeal, who finds that his radicalism gone far enough and wishes to oppose the more extreme ents with which he has been associated. His followers bound together by no particular creed ; they are there use politically they stand on his right, and he finds the ort of the more conservative of the sections that he leads n and grudging. They disclaim responsibility and regard constitution of the party as only one step better than lism. They smart under discriminatory taxation, and legislation which penalises the great financial interests landed industry, and they are debarred by the temper e electorate from actually taking part in public affairs. e are signs indeed of a conservative renaissance. Mr. zies, K.C., the deputy Premier of Victoria, one of the t young men who have entered politics since the war, ly calls himself a conservative, and he has a body of isiastic followers called the Young Nationalists. But overmastering parochialism of the country parties and pressure of aggressive vested interests associated with activities make progress difficult for any political ement which follows the old tradition.

is diagnosis will explain a great deal that has happened

in the last two years. Mr. Lang's regime in New South Wales was purely irrational and irresponsible, only to be explained as an attempt to destroy the economic fabric. His methods threatened and frightened every interest in the community, and led to the political defeat of his party throughout Australia. But though some of the more moderate unions are strongly against him they prefer to fight him inside the party, and the solidarity of the Labour party has not been sensibly impaired. It never has sufficient strength to carry an election unaided, and if its casual supporters vote against it it is always defeated. Nevertheless, the solid block of political power that the Labour party represents is always the strongest single force in politics, though better able to realise its policy in opposition than in office. When the difficulties which the heterogeneous character of the followers of the United Australia party involves are considered, the innate strength of Labour can easily be realised.

As a result of this conjunction of forces Mr. Hughes after the war succeeded in imposing a good deal of his State socialism upon Australia. Mr. Bruce was at first deceived by the prosperity induced by imports of borrowed capital, and when he (earlier than most) spoke the truth and tried to meet the coming change of fortune, he fell. The Labour Ministry which then took office was defeated by Langism. Mr. Lyons, the present Prime Minister, was a Labour leader, but he has not the aggressive temper of Mr. Hughes, and his genuine patriotism and tact make him an excellent chief for the mixed party which follows him. But immediately anything is done which cuts across an issue in which sectional interests are involved the troubles of the present Government begin. The Lyons Government came into office pledged to a more moderate tariff, but when they made a beginning by lowering tobacco duties of 500 per cent. they were attacked by the leader of the Country party for depriving a rural industry of protection, and when they attempt to honour the Ottawa Agreement they mobilise

an immense force of manufacturers and workers against them. They are now indeed in danger of protectionist defections on the one side, and an attack from the agragrians for not lowering the tariff still further on the other. At the same time the effort to secure economy in public expenditure is always hampered by an interest which is more solid than any other in Australia, the public service.

In New South Wales, Mr. Stevens, a leader of great ability, is struggling with a problem of extraordinary difficulty. In Victoria, the position of the strongest Cabinet the State has had for years is at present weakened to an exceptional degree by defections. The Government has to choose between treating important clauses in Bills before the House as not vital—a humiliating course—and sacrificing the only combination which is likely to face the problems that confront the State. In South Australia, the Premier, Mr. Hill, disowned by his own Trades Hall, is almost certain to be defeated in his electorate when he goes to the polls next year. In Western Australia, all parties are at one in their condemnation of the federal tariff policy, and there is a powerful secession movement; in a young State of this kind such grievances all tend to discourage economy. It will thus be seen that a difficult party complex, combined with unparalleled economic difficulties, makes the parliamentary machine work badly in Australia, and in a country so deeply committed to State socialism the effects of political inefficiency are more serious than they would be under a more individualistic system. On the other hand, the control of the State has enabled reconstruction schemes of great importance to be carried out, and the difficulties that face Australia to-day are probably less than those which confront most other countries.

Australia.
December 21, 1932.

SOUTH AFRICA

I. The Political Situation

THE political situation here since our last survey in the September number has undergone a sudden and dramatic change. At that time, notwithstanding the prevailing distress in the country and a rising tide of criticism of the gold standard policy of the Government, nothing had occurred to shake the confidence of Ministers in the loyalty of their parliamentary supporters, or in their hold on the party in the country. Indeed, the result of the by-election at Colesberg had gone far to confirm that confidence and to discourage the hopes of the South African party that the popular tide had at last turned in their favour. The results of the Ottawa Conference were well received by both parties, and general approval was expressed of the manner in which the Minister of Finance, Mr. Havenga, had acquitted himself at the Conference as leader of the South African delegation. It had been expected in some quarters that the return of Ministers from the Conference would lead to some modification of the Government's policy as regards our remaining on the gold standard. That, however, was quickly dispelled by reiterated declarations of the Prime Minister and the Minister of Finance. The Prime Minister emphatically stated that neither he nor any of his colleagues would be responsible for such a step.

At the same time the feelings of many people throughout the country, more especially among the British section, were seriously perturbed by certain speeches of the Prime Minister, which were understood as meaning that he regarded the recent political movements as indicative of a

general attack on the Afrikaans language and people, and that the next election would be the occasion of a bitter racial conflict. A counter agitation sprang up in certain centres, criticising the South African party for its alleged laxity in defending British interests and threatening the formation of political or semi-political organisations on strictly racial lines. Disclaimers and explanations have to some extent relieved the tension, but reference is made here to the accentuation of racial feelings as contributing to the further developments which will be recorded below.

The division in the South African party in Natal, which was described in the September issue,* would appear to have been definitely averted by the skilful handling of the situation by General Smuts. At a congress of the Natal section of the party in September, he definitely laid it down that, while he and the party were prepared to go far in extending the powers of Provincial Councils on federal lines, he would not agree to modify the basic principle of the Act of Union—the unlimited supremacy of the Union Parliament. Whatever extension of powers Provincial Councils might desire, must therefore be sought within the four corners of the South Africa Act. With this the parliamentary representatives of the party, with two or three dissentients, professed themselves to be satisfied. At a general congress of the party held at Bloemfontein in December this statement of policy was endorsed with acclamation, and no dissentient voice was raised. To all outward appearance, therefore, the party ranks are closed again. The so-called Devolution League in Natal still pursues a somewhat distracted course, but is unlikely to be a source of political trouble.

By this time, however, the result of a by-election at Germiston had brought a remarkable change in the political scene. The vacancy at Germiston was caused by the death of Mr. George Brown, who was a prominent member of the Labour party when it formed what was known as

* The Round Table, No. 88, September 1932, p. 896.

the Pact with the Nationalist party in 1924. He won the seat then and held it at the 1929 election by an increased majority of 877 in an electorate numbering round about 3,000. When a section of the Labour party broke away from the leadership of Colonel Creswell and declared its independence of the Government party, Mr. Brown at first remained as a follower of Colonel Creswell, but towards the close of the last parliamentary session, he joined the other section. In the recent by-election five candidates went to the poll. Besides the Nationalist, South African party and Labour candidates, two others came forward, representing independent groups which have sprung up in opposition to the Government. As, however, the two independent candidates with the Labour candidate only polled between them 216 votes, the election was, in the result, a straight contest between the Nationalist and South African parties. The electorate in the meantime had been very largely increased owing in part to the growth of the constituency since the last delimitation, but mostly to the inclusion for the first time of women on the voters' roll. The result was a poll of 4,257 for the South African party candidate, as against 3,076 for the Nationalist Shortly afterwards, at a by-election for the Provincial Council at Roodepoort, one of the divisions of the Witwatersrand, which had been held for the South African party at the previous election by a precarious majority, the South African party candidate obtained a majority of 1,986 against a Nationalist party candidate. While these results were naturally acclaimed by the South African party as demonstrating that the tide of popular favour had set strongly in its direction, a more impartial survey of the situation led to the conclusion that they were anti-Government rather than pro-South African party victories. This aspect of the matter was quickly sensed by General Smuts, who, at the general congress of the party at Bloemfontein early in December, announced that his appeal to the people for a change of government was to be on a wider

basis than that of party. He appealed more particularly to adherents of the Labour party, now reduced to impotence by its internal divisions; promised a comprehensive social and industrial programme and urged co-operation among citizens of good will, regardless of past party affinities, with a view to obtaining a Government of national as against racial and sectional outlook. An immediate response was the issue of a statement by nine prominent members of the Labour party, headed by Mr. Morris Kentridge, M.P., announcing their adhesion to the South African party. This undoubtedly gave a marked stimulus to the growing desire throughout the country for a change of government, not merely by a transfer of power from one of the existing parties to another, but by the coming together of men of all parties to form what is vaguely called a national Government.

This was the moment which brought back to the political arena Mr. Tielman Roos. Mr. Roos, it will be remembered, was Minister of Justice in the Nationalist Government which took office in 1924. He was leader of the party in the Transvaal, and was generally regarded as second in authority in the Ministry. A breakdown in health (and, according to the political gossip of the day, inharmonious relations with some of his colleagues) led to his resignation, and in 1929 he was appointed to the Bench of the Appellate Division of the Supreme Court. It has been a matter of public notoriety that his transfer to the judiciary only suspended and did not oust his interest in politics. An early return to the active field of politics has from time to time been anticipated by the public and urged upon him by his friends. On December 16, at one of the Dingaan's Day celebrations, he announced his early return, and a few days later he resigned his judicial office and came forward as the leader of a movement for a national Government on non-racial lines, and for a devaluation of the currency. The effect on our financial policy was immediate. The flight from the gold pound which has been going on with

varying intensity since the abandonment of the gold standard by England assumed such dimensions that on December 28 the Government, by ministerial decree in the form of a statutory regulation by the Governor-General, relieved the Reserve Bank from the obligation to redeem its notes in gold and thereby terminated our gold currency standard.

Politically the impetus given by Mr. Roos's reappearance to the movement for a national Government took two directions. In some quarters it revived the desire for a *rapprochement* of the two official parties. Others looked to Mr. Roos to break down the barriers of party allegiance, and to draw from both parties sufficient support to enable him to form what was vaguely termed a coalition Government. General Hertzog in the name of the Nationalist party at once denounced Mr. Roos's move as an act of treason to the party. He has also made it clear that he will have nothing to do with any proposal for co-operation with the South African party. So far only two or three of the Government supporters in the House of Assembly have openly declared allegiance to Mr. Roos and, except for his own assertions, there is nothing to indicate a defection from the Nationalist ranks in Parliament on such a scale as to cause the defeat of the Government. The South African party declared its willingness to co-operate with Mr. Roos on the basis of his being able to carry with him sufficient numbers of the Nationalist party to constitute a workable coalition Government. Negotiations followed but broke down. Mr. Roos, with an undeclared hand as regards the number of his parliamentary supporters or the policy to be followed by the new combination, insisted on control of the new Ministry being vested in the Nationalist elements who might follow him. To this the South African party negotiators, who were representing their party as a whole, could not agree.

What will next emerge from the present nebulous situation it is difficult to surmise. Mr. Roos must do one of two

things : either bring himself into line with the main body of the Nationalist party—to which he has throughout declared his adherence—or form a third party in opposition to the other two. The question of immediate importance is whether his followers in the House—he himself of course is not a member—will join the South African party in an attack on the Government, and if so whether enough of them will vote against the Government to bring it down. On neither of these points is there as yet any certainty.* The Government position itself is by no means assured. The Prime Minister has repeatedly and emphatically declared that his Government would not remain in office if South Africa abandoned the gold standard. Merely to ignore these pledges will undoubtedly mean loss of prestige and exposure to damaging attacks. On the other hand, if they can avoid defeat in the House, there are certain considerations which may tempt them to carry on till next year when the present Parliament expires. The departure from the gold standard has brought our currency in exchange value to within a few points of sterling and in consequence the gold-mining industry is now receiving a large premium in South African currency on the sale of its gold. On an annual output of about £45 millions in gold pounds, this premium, at present rates, will amount to about £13 millions. Even if the Government does not impose a special tax on this source of profit (as they are fairly certain to do), the enhanced receipts from the income tax and mining leases will produce a marked improvement in the budget position, and with additional taxation on the gold premium they could look forward to a useful surplus. They have already informed the civil service that the recent salary "cuts" will be restored on April 1 next. Whether

* A motion by General Smuts that the Government should resign and make way for a National Government was defeated on February 1, the voting following normal party lines. Mr Roos's followers voted with the Nationalists. At the present moment the news from South Africa, if there is to be a coalition, points in the direction of one between the Nationalist party and the South African party.

they will remain in office till next year and go to the country on the strength of a financial rehabilitation or dissolve Parliament this year before Mr. Roos has time to organise a militant Opposition—if indeed that is his intention—it is too early yet to predict.

II. The Ottawa Agreements

TWO more or less distinct policies have run through the sequence of Colonial and Imperial Conferences The British Government has tended to stress the ideas of common defence and closer political machinery, an imperial council in the palmy days of the "New Imperialism," or a permanent secretariat or preparatory commission in the post-war Commonwealth era. The Dominions, on the other hand—and this is not to lose sight of the preferences they have given to United Kingdom goods from time to time—have, to put it bluntly, set their hearts on getting in on the ground floor of the British home market and at the same time warding off British competition from their own nascent secondary industries.

South Africans remember that it was Jan Hofmeyr, a South African, who, at the first Conference of 1887, and again at Ottawa in 1894, with the warm support of Rhodes, the federalist Home Ruler, tried to unite the two policies by proposing the imposition of small extra duties on foreign goods at all imperial ports of entry whose proceeds should go towards the upkeep of the royal navy. Nothing came of the scheme, and except during what may be called the "wind-up period" from 1911–14, South Africa's delegates, of whatever political complexion, hankered openly after preferences and resisted all centripetal political proposals. Protectionists almost to a man, South Africans, whether of British or of Afrikander stock, have watched with hopeful approval the growing power of the protection preference forces in Great Britain. They accepted the

preferences on wine and sugar and fruit of 1924 as the welcome earnest of greater things to come; they hailed the Conservative landslide of 1931 in the Old Country, just before the assembling of the Ottawa Economic Conference, as the promise that these greater things were coming at last.

There was need for great things. The Union's approach to Ottawa must be seen against a dark background. Here was a small European community uneasily balanced upon the back of a comparatively large black proletariat, clinging in something like isolation to the rock of the gold standard, with its money pouring overseas and business going dead, its balance of trade becoming more "favourable" monthly by dint of a headlong fall of imports which outran the steady fall of heavily subsidised exports. To a community in such a state Ottawa shone full of promise in the golden west.

Not all South Africans, however, looked forward to the Conference with enthusiasm. True, imperial sentiment appealed strongly to many of General Smuts's followers in the South African party, and even where sentiment counted for little there was a desire to make a deal with what was after all far and away the most friendly of the great Powers, and one with a vast dependent empire. On the other hand, some of the Nationalists definitely hated the Empire, Commonwealth, call it what you please, while others were deeply suspicious of any imperial entanglement. The extravagances of the Empire Crusaders had alarmed these men; they feared that they might somehow be manœuvred into a pan-British economic kraal. To them the Union's commercial treaty of 1928 with Germany had appeared not only as a good stroke of business, but also as an assertion of economic autarchy and an anti-imperial gesture. That treaty gave Germany most-favoured-nation treatment, and then stood in the way of special preferences to Empire products in Union markets. Yet as recently as February

1932, when this point was raised in the House of Assembly, the Government declined to hear of its modification.

Nevertheless, even the most ardent South African Sinn Feiner had to admit that it was to the Union's interest to come to terms with Great Britain, and possibly with other Dominions. General Hertzog had hinted as much after the Imperial Conference of 1930. He had, of course, taken up a stiff particularist attitude, but he had admitted frankly that existing voluntary mutual preferences were precarious, and that what he looked for was fair bargaining in the future which would stabilise preferences "for periods sufficiently lengthy to create confidence." By the middle of 1932 that need was imperative. Thanks to their divergent currencies, the Union and the Rhodesias were drifting apart economically; Canada had put an almost prohibitive anti-dumping duty on subsidised Union maize; above all, everyone knew that Great Britain's adoption of protection had revolutionised the situation. Of late years Great Britain's tone at Imperial Conferences had altered somewhat. There was less of the kindly but harassed father talking with exigent sons, and more of one partner talking friendly but quite definite business with other partners. Now, protectionist Great Britain had given notice that, in default of agreement, existing preferences would disappear in November 1932. That would have been a very grave matter for the Union. In 1931 South Africa ranked fourth among the national purchasers of British goods, taking as she had done for ten years past more than the Argentine, but, on the other hand, excluding gold and including re-exports, over 70 per cent. of her exports in that year had gone to England as contrasted with Australia's 45 per cent. and Canada's 31 per cent. Every year, too, she was, like Australia, becoming more dependent on her export trade.

As the date fixed for the Conference drew nearer, expectations rose higher, sometimes to extravagant heights, when otherwise sober business men could wax lyrical

at being on "the threshold of a new economic era, of a complete recasting of economic theories." Mr. N. C. Havenga, Minister of Finance and leader of our delegation to Ottawa, took an early opportunity to dispel any such ideas. To him Lausanne meant much more than Ottawa. "It would be folly," he said in words reminiscent of Smuts's warning long ago that the ills of the post-war world were psychological more than anything else, "to imagine that Ottawa, in itself and by itself, can achieve the impossible—the restoration of economic health to a world in which old habits of thought . . . still prevail."

It was in a mood of cautious optimism, therefore, that the mixed public of the Union saw its delegation sail. Three Ministers went: Mr. Havenga (Finance), Mr. P. Grobler (Lands) and Mr. A. P. J. Fourie (Mines and Industries), with a full tale of official advisers and secretaries. There went also a large unofficial delegation wisely chosen without regard to national antecedents or political affiliations, representing the Chambers of Mines, Commerce, and Industries, the wine and fruit interests, the South African Agricultural Union, and the Federated Farmers' Co-operative Association. Last, but not least, went the editor of the *Cape Times*, thanks to whose special reports the proceedings at Ottawa held their own as first-class items of public interest in spite of the hot competition of two long-drawn-out murder trials, the *sequelæ* of the tar-and-feathering of a too outspoken university lecturer by young Transvaal hotheads, and a furious by-election at Colesberg.

Of the doings of our delegates at Ottawa it is sufficient to record only two facts, and, in the lurid light of our day-to-day local politics, it is pleasant to be able to record them. The salt sea breezes, the kindly mists of London, and the keen air of the Ottawa plateau dispelled old party and so-called racial feuds; the relations between officials and non-officials were so close and cordial that the Union delegation earned the title of the happy family of the

Conference. Secondly, Mr. Havenga maintained the Union's reputation of always having at least one big man to send to conferences, or at any rate a man who on that wider platform and in a larger air can rise far above the level of the workaday party politician. He was definitely one of the Conference's successes. As chairman of the Foreign Relations Committee he probably set up a record by getting through the work in twenty minutes, though it must be confessed that that was easier than it sounds, since the Committee agreed that there should be no common policy, but that each State should be free to formulate its own policy towards "lesser breeds without the law." For the rest, he set a good and, it has been whispered, a needed example of reticence outside the council chamber, while within it he always showed himself clear-headed and moderate. Before sailing he had outlined his policy: no ring fences, freedom to trade without as well as within the Commonwealth, no fostering of obviously unsound secondary industries, and an attempt to make a start with the lowering of world tariffs. He stuck to that policy throughout, and thus came nearest perhaps of all the Dominion leaders to the British standpoint. Maybe that was one reason why he and his companions came away from Ottawa better pleased than most of their compeers.

After the conclusion of the Conference our ministerial delegates proceeded to Washington and New York, and then went their several ways: Mr. Grobler to California, where our fruit-growers had gone to school in the early days; Mr. Fourie to Europe, whose markets had always been in the minds of our delegates even in the more enthusiastic moments at Ottawa; and Mr. Havenga to London and so home. There, in the middle of the Orange Free State, where such an admission means more than it would elsewhere, Mr. Havenga generously expressed his appreciation of the way in which the British "went out of their way to help Dominion producers, at times even at the cost of extra burdens upon their own people."

Altogether, as one of our unofficial delegates put it, Ottawa had been à good beginning of "a great experiment . . . all that a wise man could expect."

Like everyone else, the people of the Union were left some time in expectation. Certain facts were, however, known at the close of the Conference. Nationalists naturally hailed the rather colourless report of the Monetary Committee to the effect, *inter alia*, that steps should be taken to avert wild fluctuations in the gold value of sterling as an endorsement of their policy of adhering to the gold standard; their opponents suggested that the Committee's preoccupation, like that of the pre-war world, had been with sterling and not with gold *per se*. Be that as it may, this particular dispute is now of only academic importance, as in the middle of December the Union slid off the gold standard and within a month had sunk to the level of sterling. Secondly, it was known that the Union had joined with the Irish Free State in declining to hear of a permanent secretariat or preparatory commission which should carry on in the intervals between conferences, and had also refused to promise financial aid to even the most modest Commonwealth organisation. Lastly, it was announced that South Africa had not followed Canada, Australia and New Zealand in offering to British industry the right to complain to a special Board against alleged unfair tariffs. That, the Union representatives held, was a breach in the defences of Dominion autonomy and probably unworkable withal. On the latter head at least they were probably right. Already we have tidings of difficulties in Australia, and still more in Canada, whose Government insists that only His Majesty's Government may lodge complaints, with all the risk of inter-governmental friction, and not individuals or groups of manufacturers, which surely must have been the idea at Ottawa.

Immediately after the close of the Conference two important steps were taken. Canada removed her anti-dumping duties on Union maize, until 1934 at all events, provided that it is imported at the ruling world price, by which time

Union farmers may have to choose between the present 10 per cent. export subsidy and the restriction once more of their Canadian market. For the moment the gain to the Union is considerable. A few weeks later, in October, section 8 of the Union-German treaty was modified by a friendly interchange of Notes, so that South Africa was relieved from the necessity of giving the Reich the privileges of Ottawa under the most-favoured-nations clause. For a moment hopes ran high in Berlin commercial circles that German goods would still rank with goods from the United Kingdom. The mistake arose from the ambiguity of the word "Dominion," the hopeful German distinguishing between post-war Dominions and the United Kingdom. But once it was explained that the United Kingdom is still part of His Majesty's dominions, to which alone reference was made in the revised clause, the difficulty vanished and Berlin got down to business.

Details of the Union's bargains with Great Britain and with Canada were published in the middle of October. The changed rates of duties came into force at once, subject to ratification by Parliament, which is to meet on January 20. The ministerial view of the negotiations as a whole has since been well expressed by Mr. Havenga.

> The Conference (he wrote) has perhaps greater significance for the Union than for any other member of the Commonwealth of Nations. It marks the close of an era and the justification of those constitutional changes which commenced in 1926 and for which the Union of South Africa was largely responsible. It is the refutation of those doctrinaire theorists who advocated a federal Empire and could not visualise co-operation except in an atmosphere of dominance and compulsion. When the Dominions obtained their charter as independent States freely associated with Great Britain, owing with her common allegiance to the Crown, and bound by no ties other than the will to co-operate, they doubted the wisdom of that policy and the existence of such a desire, Ottawa has put these doubts at rest. . . . The negotiations were not characterised by a spirit of meticulous bargaining, a balancing of consideration against consideration. . . .

That was certainly true of the negotiations between South Africa and Great Britain. Even those who would

question the historical accuracy of Mr. Havenga's description of the genesis of Dominion status will not grudge him this fanfare on the Nationalist trumpet for the sake of the cordial note of co-operation on which he ends.

What, then, did the Union get? It did not get all that its delegates asked for, but who ever did that? Mr. Havenga admits that he would have wished for a greater preference upon tobacco but was well satisfied with a long term of stabilisation; he supported Australia in an attempt to get rid of the £1 per ton preference which Britain gives to colonial over Dominion sugar, but in the end cheerfully agreed to view that as a grant-in-aid to hard-pressed dependencies; finally, he supported Australia, again up to a point, in her fierce efforts to get a preferential duty on meat, and not merely the quota which His Majesty's Government proposed. But Australia's concern was with frozen meat and the Union's with chilled meat. Second thoughts showed Mr. Havenga that the quota really suited South Africa better than a duty which would still leave the chilled meat trade with England in the hands of the powerful South American interests, with whose pastures the Union could not hope to compete. As it is, the Union will be able to dispose of all its surplus sheep and lambs next year (and, unlike some of its beef, South African mutton is good), while Great Britain has promised to help it to market chilled beef also.

The Union's preferential gains are as follows: Substantial preferences on eggs, poultry, butter, cheese and other milk products are to stand for three years, on nearly all the other enumerated articles for five, and on tobacco for ten. What is more, His Majesty's Government "will invite the Governments of the non-self-governing Colonies and Protectorates to accord to the Union . . . any preference which may for the time being be accorded to any other part of the British Empire." Union products such as wine, sugar, tobacco and dried fruits, which enjoyed preferences before Ottawa, will, of course, continue to enjoy them, with marked increases in favour of light wines and dried fruits.

There is to be a 10 per cent. preference over foreign imports such as maize, wattle bark, asbestos, whale products, goat-skins, tinned crayfish (which passes well as lobster), fresh hake, kaffir corn, ground nuts, fruit juices, boxwood, potatoes, sausage casings, ostrich feathers, and oyster shell grit. Unwrought copper is to have an advantage of 2d. per lb. provided it is sold at the ruling world price. Fruit has done particularly well. Pears and apples are to have an all-the-year-round preference; other fresh fruit, and in especial citrus, are to have very liberal seasonal preferences. "The position in regard to citrus," Mr. Havenga told a Bloemfontein audience, "is that for a certain period of the year . . . we shall have sole control of the British markets. You will readily appreciate what that means." Others seem to have appreciated it already; at any rate we have news of protests by the British Federation of Fruit Traders and the Palestinian citrus growers. "But things like that, you know, must be. . . ." A great many new citrus trees will be in bearing in the Union four years hence.

What does the Union give in exchange for all these advantages which promise to be of immediate value and of much greater future value in the event of world recovery? Mr. Havenga has been at pains to explain to anxious Free State inquirers that it is not overmuch. The Union delegates had insisted throughout that concessions to British manufacturers were not to be such as would raise prices in the Union, that South African industries were not to suffer, and that there must be no taking away of trade from foreign peoples who were good customers to the Union. Existing preferences to British goods are to be maintained, and even increased for certain lines of iron, steel and machinery; new preferences are to be granted on cranes, conveyors, locomotives, vacuum cleaners, sprayers, tractors, typewriters, radio apparatus, belting, bands, garden hose, canvas and rubber shoes; minimum specific duties are to be levied on certain very cheap lines of textiles, in return, presumably, for the run of England's

dependent Empire; a preference is to be given to raw coffee and asphalt coming from certain non-self-governing colonies. "The concessions we have made," Mr. Havenga announces, "represent only a small portion of our trade, and will have but the slightest effect on the other countries with which we carry on business."

The Union's bargain with Canada is in the main a complicated interchange of tariff concessions on specified articles. The main gain for the Union is the removal of the practical embargo on her maize, but her exporters look also to good openings for citrus, dried fruit, canned pineapples, and wine. Especially, perhaps, wine. For two years past South African wines have been "listed," *i.e.*, importable, into Canada's western provinces; now they are to be listed for the more populous provinces of the east as well. And adjacent to the east lie the greatest and most thirsty centres of population in the United States, which is apparently on the point of going "wet" once more.

Altogether, the Union delegates have every reason to be quietly pleased with the result of their labours. It will, however, be difficult to judge just how far South Africa may benefit from the Ottawa decisions by reason of the complications introduced by our recent sudden abandonment of the gold standard. Meanwhile, in the intervals of watching the prices of overseas goods mounting in our shop windows, we can spare time for admiring glances at Mr. Bennett's efforts to make wholesale barter transactions between Canada and Russia square with his Conference crusade against the unspeakable Muscovite.

III. The Departure from the Gold Standard

On December 27, 1932, the Union Government abandoned the principle of the convertibility of Reserve Bank notes and thus departed from the gold standard. The immediate cause, or at any rate the immediate occasion, of this development, as has been made

clear on a previous page, was the announcement on December 22 of the resignation of Mr. Tielman Roos as Judge of the Appeal Court in order to lead a political crusade to save South Africa from the native peril, the evils of racialism, declining trade and tight money, by forming a coalition Government pledged to devaluation.

When the United Kingdom first left the gold standard in September, 1931, there was a considerable outflow of South African funds to Great Britain on the account of those who speculated either on a rise in sterling, or on the possibility of South African currency being either devaluated or pegged at parity with sterling. The highest estimate of the amount thus exported given " by responsible witnesses " to the Select Committee on the Gold Standard,* which signed its report on May 16, 1932, was £13 millions or £14 millions (South African). The Committee calculated that not more than £9 millions or £10 millions of cash resources were withdrawn from the Union. It is clear that the bulk of this was soon re-imported either in the form of South African obligations, met at favourable exchange rates, or in the form of goods. As the bankers' evidence showed that there was no sign of an undue contraction of credit in South Africa as a result, it is evident that apart from a few difficulties caused by an unusually large demand for exchange for a short period, South Africa had nothing to fear at that time, nor was there any question of South African capital being employed elsewhere until favourable opportunities for re-transfer occurred.

Following the publication of the Committee's report and the Government's declaration of its firm intention of remaining on the gold standard, the demand for sterling exchange slackened considerably. The announcement of Mr. Roos's plans, however, resulted in a second rush to secure sterling drafts. The Minister of Finance stated that, despite rationing of the provision of foreign exchange and tactics of delay, between £2 millions and £3 millions left

* S. C. 9 of 1932.

the country within three days. To judge by statements of the Reserve Bank, the central institution seems to have been confident of its ability to meet the situation, but additional pressure was exerted through withdrawals of deposits from the commercial banks in order to present notes for payment in gold at the Reserve Bank. The Government therefore decided to intervene. The Christmas holidays provided a welcome breathing space, and the re-opening of the banks coincided with the suspension of the convertibility of Reserve Bank notes on December 27.

Once more there is evidence of great exaggeration of the scale of withdrawals. Statements are not at present available from the commercial banks, but the Reserve Bank statements make this clear. The three relevant statements are appended. From these it is obvious in the first place that there were no serious withdrawals of gold coin or bullion. The ratio of cash reserves to public liabilities never fell below 56·5 per cent., while the Government had previously taken powers to suspend the legal requirement of a 40 per cent. minimum. It is plain that the commercial banks were not so hard pressed as to have materially to reduce their deposits with the Reserve Bank; bankers' deposits even showed an increase during the week in which South Africa left gold, and there was little sign of a large-scale return of speculative money in the week following. The changes in deposits (other than bankers' deposits) do not indicate operations on any large scale through the Reserve Bank. Discounts of bills at the Reserve Bank also give no indication of much pressure on the commercial banks. There can be little doubt, therefore, that the movement of funds about Christmas was much smaller than has been suggested. That the Government should have abandoned gold in the face of this comparatively small "crisis," suggests either that there was a divergence of opinion in the Cabinet, or else that the threat of Mr. Roos gaining sufficient support to overthrow the Administration caused a Cabinet panic.

The fears for the immediate stability of the currency that attacked economists apprehensive of the large amounts of speculative money abroad have been allayed by the demonstration of the Reserve Bank returns that speculation has not been on so considerable a scale as alleged. There have been no disastrously large re-entries of the heavy sums of money required for January payments, which were supposed to have been transferred to London towards the end of December as a quick speculation. After a few days of uneasy operations the banks seemed to be managing exchange business fairly comfortably with the South African pound at a few points premium over sterling. Time alone will show whether the fears of the Minister of Finance are justified that "there is a grave risk in a small country like South Africa with a small population, where a small section can exert strong political pressure, that if you once slip your anchor it will be practically impossible to stop what we call inflation."

The chief benefits from the departure from the gold standard accrue first of all to the gold-mining companies. The Gold Producers' Committee stated to the Select Committee on the Gold Standard that if South African currency were devalued 25 per cent., the additional income which would accrue to the mines working on the present scale would be £15,400,000, of which a maximum of approximately £3,200,000 would be swallowed up by increased costs, leaving a net gain of £12,200,000. The Gold Producers' Committee, however, averred that they did not intend to try to reap this immediate extra profit. They would instead prolong the life of the Rand by crushing lower grade ores and would embark on an ambitious scheme of capital development of low grade mines. As the mines are at present working to capacity, the number of ounces of gold produced would at first actually diminish on account of the utilisation of lower grade ores. The Select Committee found it hard to believe that the mines could carry out this policy in face of pressure from their shareholders

to make the most of the gold premium while it lasted. This comes out very clearly in the examination of Professor Norval and of Mr. Gemmill and Mr. John Martin. Mr. Martin has, however, re-affirmed the decision to develop low grade mining in a statement made on behalf of the Gold Producers' Committee on January 11.

As it appears that the additional profits will accrue to the mines without any increase in the production of gold being envisaged, it follows that incomes will be redistributed more in favour of the gold mines. The policy of the Chamber of Mines pre-supposes that there will be no marked rise in costs over a long period of at least five years. It is plain that depreciation of the South African currency would not have the same effect on the terms of trade as the departure from gold in Great Britain, the world's largest market for goods entering into international commerce. Only the less well informed readers of the less well informed newspapers believed that there would be no rise in the prices of imported goods, and these have already been disabused by the orgy of marking up prices in which merchants and shopkeepers are indulging. Unless all costs are to rise commensurately, it follows that the chief sufferers, on balance, must be the wage earners and producers for their home market—in particular, as Professor Leslie of the University of Cape Town pointed out in his valuable evidence before the Select Committee on the Gold Standard, the large number of farmers who do not produce for export, our suppliers of maize and meat and wheat. It is, in the opinion of the writer of this section, by no means clear that the redistribution of wealth caused by departure from the gold standard is desirable—in fact, the indications point altogether in the contrary direction—and the political uncertainties which have ushered in the change cannot fail to add to our difficulties.

South Africa.
January 18, 1933.

South Africa

APPENDIX

	December 23, 1932.	December 30, 1932.	Jan 19
LIABILITIES.	£	£	
Capital	1,000,000	1,000,000	1,0
	(no change)	(no change)	(no ch
Reserve	8,818	8,818	
	(no change)	(no change)	(no ch
Note circulation ..	7,312,582	8,334,709	7,84
	(inc. 562,478)	(inc. 1,022,127)	(dec. 49
Deposits :			
Government ..	1,710,622	1,174,951	1,38
	(inc. 245,786)	(dec. 535,671)	(inc. 21
Bankers'. ..	3,779,421	3,833,216	4,01
	(dec. 296,203)	(inc. 53,795)	(inc. 18
Other	264,213	141,138	13
	(dec. 33,373)	(dec. 123,075)	(dec 1
Other liabilities .	1,204,031	1,409,976	1,50
	(dec. 528,954)	(inc. 205,945)	(inc. 9
Total ..	15,279,687	15,902,808	15,89
ASSETS.			
Gold coin and bullion	6,948,386	7,173,033	7,32
	(dec. 673,323)	(inc. 224,647)	(inc. 15
Subsidiary coin ..	509,917	505,683	51
	(dec. 14,379)	(dec. 4,234)	(inc.
Bills discounted :			
Domestic ..	1,208,106	1,202,780	1,10
	(inc. 7,730)	(dec. 5,326)	(dec. 9
Foreign	35	80	
	(dec. 608)	(inc. 45)	(in
Treasury bills	391,500	201,500	22
	(inc. 380,000)	(dec. 190,000)	(inc. 2
Loans and advances to Government	3,250,000	3,450,000	3,85
	(inc. 150,000)	(inc. 200,000)	(inc. 40
Other loans and advances	271,613	343,858	
	(inc. 63,934)	(inc. 72,245)	(dec. 34
Investments ..	1,688,354	1,955,354	1,85
	(dec. 136,000)	(inc. 267,000)	(dec. 10
Other assets	1,011,776	1,070,520	1,01
	(inc. 172,380)	(inc. 58,744)	(dec. 51
Total ..	15,279,687	15,902,808	15,89
Ratio of cash reserves to liabilities to the public ..	57 per cent.	56·5 per cent.	57·5 per

NEW ZEALAND

I. The Ottawa Agreement

LIKE other parts of the Empire, New Zealand had before the close of the Ottawa Conference, a good general knowledge of the preferences that her produce was to receive under her agreement with Great Britain, and the interest with which Mr. Coates's statement on the subject was awaited related chiefly to the concessions she was to offer in return. On October 13 he laid on the table of the House of Representatives the full text of the agreement, and delivered a speech which included a survey of the whole proceedings; a clear explanation of the new departure in meat policy, which disclosed for the first time that, beginning with an immediate reduction of 10 per cent., Great Britain would reduce her imports of foreign mutton and lamb by 35 per cent. by the middle of 1934, and would keep them at that level for the period of the agreement; and the full details of the tariff changes to which New Zealand was committed. An undertaking had been given, said Mr. Coates:—

That protection by tariffs should be afforded against United Kingdom products only to those industries which are reasonably assured of sound opportunities for success. An enquiry had also been promised into existing protective duties—at which enquiry United Kingdom producers would have the opportunity of expressing their views—with a view to reducing protection to a level which will give the United Kingdom producer full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production.

The reductions definitely promised were six in number. The surtax imposed in 1930 of one-twentieth of the total duty on some goods and nine-fortieths of the total duty on others was to be

removed from British goods at once. The primage duty of 3 per cent. *ad valorem* was to be removed when financial conditions permitted. And four duties were to be lowered as follows: (1) Confectionery, reduction from 30 per cent. to 27½ per cent. (2) Apparel and ready-máde clothing, reduction from 32½ per cent. to 27½ per cent. (3) Hosiery, reduction from 32½ per cent. to 27½ per cent. (4) Silk and artificial silk piece-goods, reduction from 10 per cent. to free.

It was, as Mr. Coates said, not an extensive list, but it was even smaller than it looked, for the changes in items 2, 3 and 4 were already due under the existing law as from April 1 next. Confectionery was thus the only new item. A preference of 10 per cent. was also to be granted on writing and printing paper in large sheets (such paper in small sheets having the preference already), but this was to be done by imposing 10 per cent. on foreign paper.

After detailing the preferences that had been arranged on imports from the colonies, Mr. Coates claimed to have said enough to dispose of any attempt by interested parties "to discredit Ottawa by alleging the betrayal of our secondary industries," and that there was nothing in the agreement to prejudice the establishment of the growth of sound industrial enterprises in the Dominion.

We are, however, (he continued) bound by the letter and by the spirit of the agreement to see that reasonable opportunities for trade are extended to the British manufacturer. Already the general fall in prices has injured trade, and has materially added to the burden of protective duties. If we are to revive trade, it must be on a reciprocal basis. We cannot expect Great Britain to embark upon a new trade policy designed to help the Dominions without our facilitating her trade. The agreement definitely commits New Zealand to a thorough overhaul of her protective tariff duties. This should be undertaken not merely for the purpose of giving effect to the Ottawa agreement, but is, I firmly believe, in the interests of our own people. Already the distance which separates New Zealand from the outside world gives substantial protection to local industries Further artificial protection, which is so easy to establish, so difficult to curb or remove, is apt to be a costly business for our country. If we are to export we must import; we cannot have one-way trade.

We are apt, in judging the results of the Conference, to weigh the concessions granted by the United Kingdom against the con-

cessions granted by New Zealand. But it must be remembered that the so-called "concessions" which we made in reducing tariffs are not of advantage to United Kingdom exporters alone. They are a gain to ourselves. The contrary view rests upon the fallacy of assuming that tariff duties are paid by exporters. They are, in fact, as is well recognised, paid rather by purchasers and consumers. Their reduction is therefore a necessary step towards lower costs of production and lower costs of living.

The loss of revenue that the Dominion would suffer during the remainder of the financial year from the proposed changes was estimated at about £250,000.

Mr. H. E. Holland (Leader of the Labour Opposition) attacked the agreement on the ground of its threat to the secondary industries. He considered that the most significant part of the report was that which suggested an inquiry into the existing protective duties. In it were contained the germs of danger to the secondary industries of the Dominion. Referring to the proposed changes in respect of confectionery, Mr. Holland said that British and foreign goods were going to be placed in a far more advantageous position in competition with local industries than had ever been the case before. The confectionery trade in New Zealand was already in a deplorable condition. Wages had been dragged down, and it was no exaggeration of the position to say that the workers in the confectionery industry were being reduced to a condition of serfdom. As for apparel, it could be, and was being, made in New Zealand, and there could be no question that the industry was natural to the Dominion. The same argument would apply to the case of hosiery.

The time has arrived when we should give up tariff tinkering (declared Mr. Holland), and we should say if these goods cannot be produced in New Zealand, they should come in duty free. That is the science of international commerce. If the goods can be produced in New Zealand, then we don't want to import them. We should tell Britain or any other country that we don't want them to send goods here which we can produce in New Zealand. We have got to keep our own people working and we cannot do that if

we allow our market to be flooded with goods from outside, whether from Britain, Japan or any other country.

The Prime Minister's resolution "that this House approves of the agreement between His Majesty's Government in the United Kingdom and His Majesty's Government in New Zealand" was debated on October 19, 20 and 21, the arguments following pretty closely the lines of the opening speeches summarised above. The only division was on an amendment moved by the Leader of the Opposition to insert after the word "that" the following words:—

except in so far as the change tends to destroy the measure of protection accorded by the existing laws to goods which can economically be produced in New Zealand, and always provided that necessaries which cannot be produced in New Zealand shall come in duty free.

The division followed party lines, one Independent voting with the Labour party, and it resulted in the rejection of the amendment by 44 votes to 24. The motion was then allowed to pass on the voices.

In the speech with which he concluded the debate the Prime Minister described the Labour party's amendment as "a subterfuge to enable them to vote against the motion."

An agreement (he added) has been entered into in which Britain has been generous to a degree, and when I first heard of the arrangement that had been come to I said that it was simply another instance of the generosity of Great Britain towards New Zealand. She has recognised the difficulties of our primary producers.

Similar sentiments were expressed in leading articles throughout the country on October 14. The only doubt expressed by the Wellington *Evening Post* was whether in the restriction of imports of foreign meat, which rose from 10 per cent. to 35 per cent., Britain had not been persuaded to give too much. Borrowing a word from Viscount

Snowden, the *Otago Daily Times* of Dunedin called New Zealand's tariff concessions "illusory" and the Christchurch *Press* described them as "almost trivial in comparison with what the country is getting." The general recognition of the moral that honourable men must draw from Great Britain's generosity was well put by the *New Zealand Herald* of Auckland.

After all that has been said about sordid bargaining and huckstering at Ottawa, New Zealand must affirm that Great Britain has not proved a hard bargainer. The comparative lightness of the direct obligations of the agreement makes prompt fulfilment of the other conditions a debt of honour. New Zealand, with an established tradition of loyalty to the principle of British preference when no return was given or sought, should not hesitate to build on the foundations laid at Ottawa.

Add to this the powerful contention of Mr. Coates that in building for Great Britain on those foundations we shall also be building for ourselves—a doctrine which had not been put with anything like equal force by any New Zealand Minister for a very long time—and one begins to hope that the good start made at Ottawa in scaling down tariffs on British goods may be followed up to the benefit of both parties. In the meantime, as Mr. Forbes said, it is not easy for anybody to adopt a tragic attitude over the 2½ per cent. concession on confectionery, especially as the reduced duty of 27½ per cent. is high enough to recall the discovery which New Zealand made during her tariff controversy with Canada last year, that there is such a thing as prohibitory preference. Hitherto the only strong opposition has been that of the Labour party in Parliament, but the real test will come when the "thorough overhaul" of our tariff, which Mr. Coates has promised, begins. It was remarked in the New Zealand article twenty-one years ago* that "Free Trade and Protection have not been debated in election politics for at least twenty years." That period has now been more than doubled, but if our Government

* See The Round Table, No. 5, December 1911, p. 167.

and Parliament do their duty under the Ottawa agreement, next election may see a change.

II. The Budget

WHEN on July 30, 1931, Mr. Forbes, Prime Minister and Minister of Finance, introduced his budget for 1931–32, the prospective deficit of £6,850,000, of which £4,810,000 was accounted for by a loss of revenue, drew from him the characteristic understatement that the year was "probably the most difficult in the history of this Dominion." Yet, on October 6, 1931, a supplementary budget was found necessary to provide for a further shortage of revenue amounting to £1,250,000, and for unemployment subsidies and other charges which brought the whole gap to be bridged up to £8,445,000, equal to about one-third of the total budget. In retrospect, Mr. Forbes now describes that year less inadequately as "a year of world-wide calamity," but his recognition of the current year as a still worse one, for New Zealand at any rate, is implied in the following words :—

> As far as I am aware (he said) this is the first time that this Dominion has been so hard pressed as to find it necessary or advisable to budget for a deficit, and the fact is eloquent testimony of the extent to which a landslide in price levels can strain the whole economic and financial structure of the country.

These remarks occurred in the financial statement which, in the absence of Mr. Downie Stewart, the Minister of Finance, who was then in London, Mr. Forbes submitted to the House of Representatives on October 4, 1932. He reminded Members that, as usual,

> the storm which had shaken the world, had hit the prices of primary products most severely. New Zealand was thus among the countries that had to bear the full brunt of the depression. As pointed out by the Economic Committee in February last, export prices for 1931 were about 40 per cent. lower than for 1929, and

ably lower than those ruling in 1914. The result is that lo per cent. more exports are now required to meet our annual ıarges. Furthermore, import prices on a sterling basis have o the extent of about 12½ per cent. only, and the net result e unfavourable movements is to the Dominion a real loss of rable magnitude. Exports for the year ended June, 1929, .ed, in round figures, to £56,240,000, and for the year ended o last, to £35,547,000. Compared with the previous year e year ended June, 1931), this last figure represents a decline oo,ooo in value, or approximately 4 per cent., whereas during r export prices declined by approximately 11 per cent. This that to some extent falling prices were offset by increased tion, which is a cause for some satisfaction. Imports for the ears were· 1929, £46,510,000; 1931, £33,370,000; and 1932, ɔ,ooo. There has thus been a very heavy falling-off in imports, iking facts being that imports for last year were only about ıat they were in 1929—not only in value, but also in quantity. ıd undoubtedly been an important factor in the increase in the r of unemployed.

ɜs this drastic curtailment of the purchasing power exports there was the internal problem of the wide ity between costs and prices.

· revenue for the year 1931–32 amounted to 20,000, which was £349,000 less than that of the us year, and £1,946,000 short of the estimate. To this fall, customs, which brought in £1,702,000 less than previous year and £846,000 below the estimate, and e tax, which, at an increased rate, produced £444,000 han the year before, but was still £487,000 short of the te, were the chief contributors. On the other side of count, the estimate had been exceeded. The net diture of £24,861,000 was £153,000 in excess of that 30–31, and £233,000 over the estimate. On the covered by the budget there had actually been a of approximately £140,000, but the balance was ed by the £374,000 paid for exchange on remittances ıdon necessitated by the circumstances which led to rmation of the exchange pool in December, 1931. tmental economies had actually contributed £280,000 uction of the deficit. A table showing the actual

figures for this year, together with a summary of the estimated revenue and expenditure for 1932–33, is appended to this article. As the balance carried forward in the accounts on April 1, 1931, was only £278,601, the 1932 deficit is represented to the extent of £1,862,218 by the outstanding Treasury bills. "We come out with a deficit," is the Minister's comment, "but of manageable size, so are entitled to claim that the situation was saved."

Two points in Mr. Forbes's survey of the current financial year were received with feelings of relief. The customs revenue was looking appreciably better than had been expected when the Minister of Finance submitted his preliminary financial statement last April,* and there was to be no increase of taxation. On the other hand, the intention expressed in that statement of closing the year with "a manageable deficit" was adhered to, though nominally the amount was to be considerably reduced. The revenue is estimated at £21,630,000, which is £1,090,000 less than it was last year. On the other hand, the estimated expenditure of £22,507,000 is £2,355,000 less than last year's figure, the difference being substantially accounted for by the £2,100,000 that will be saved by following the National Expenditure Commission's recommendations, which is, perhaps, the most satisfactory of all the Minister's items. Though these figures leave a deficit of £877,000, it was considered that more drastic economies would unduly restrict the social services and impair the efficiency of the public service.

At the same time (said Mr. Forbes) it should not be overlooked that this programme means incurring further floating debt which has to be liquidated sooner or later. Thus the programme adopted is an extraordinary one, designed to provide a breathing space. It cannot be continued for long, for to pile up debt of this nature is only building up a further serious obstacle to economic restoration.

Allowing for small amounts that may be required for supplementary estimates and contingencies, Mr. Forbes regards

* *The Round Table, No. 88, September 1932, page 909.*

it as reasonably certain that the deficit will not exceed £1,000,000, which is half the amount contemplated by the Finance Minister in April. But he is compelled to add that "most of the additional saving arises out of the generosity of Great Britain." The particulars of this generosity are recorded in the following passage:—

Following Mr. Downie Stewart's personal representations in London, in regard to our difficulties, Great Britain has again extended a helping hand by consenting to postpone for another year all payments due on our Funded War Debt and certain other debts due to the British Government. The additional relief to this year's budget is £825,000, in addition to which a saving of £47,000 will accrue to the State Advances Office. Our grateful thanks are due to the Mother Country for this substantial measure of assistance during the acute period of our troubles.

III. The National Expenditure Commission

THE interim report of the Commission appointed to enquire into the public expenditure of the Dominion, and to make recommendations with a view to reducing it as much as possible, was discussed in The Round Table last June.* The Commission has now completed its labours, and its final report dated July 1 was presented to Parliament on September 30. The high praise given to the interim report in our previous article may be extended in even more emphatic terms to the final report. Between them they constitute by far the most comprehensive and searching investigation to which the public administration of this country has ever been subjected, and they must be given a high place among the most masterly of our State papers.

Broadly speaking, the method of the Commission has been to review in detail the expenditure of all the public departments, to examine such permanent heads and other witnesses as they thought fit, and to submit their conclusions in the form of a detailed criticism of every vote

* No. 87, pages 690–692.

in the schedules appended to the Appropriation Act of 1931. But the mere axe-work of destructive criticism would not carry true economy very far. The report abounds in constructive proposals for the amalgamation and reorganisation of departments and offices, for the improvement of administrative methods, and for mitigating the tyranny of red tape. And every now and then the Commission pauses in its detailed criticism to present an illuminating essay of ten pages or so on such special problems as public works administration, local government, superannuation funds, native affairs, public hospitals and charitable aid. The most far-reaching of its investigations relate to the Public Works Department, the cost of local government and the administration of public hospitals and charitable aid. The report shows that, whereas in 1914–15 the total expenditure from the Public Works Fund and other accounts under the department's control was £2,785,000, it had risen to £9,307,000 in 1930–31; that the expenditure, which between 1878 and 1921 only twice exceeded £3 a head, exceeded £5 10s. a head in 1931; that the accumulated expenditure up to March 31, 1931, was £150,143,000, of which nearly 90 per cent. came from borrowed money; that lax administration, local and political pressure, and the direct employment of labour by the department—there were 12,000 workers so employed at the beginning of the year—had sometimes resulted in wasteful expenditure and a serious excess over the estimates. A prominent place among the blunders of the department is assigned by the Commission to this system, under which public works are carried out by day labour under the department's control.

It has developed (says the report) an army of workmen who know no other employer than the State, and for whom it is increasingly difficult to find employment. We think it very undesirable that the Government should be the direct employer of men engaged on public works. If works were let by contract, the administrative staff of the Public Works Department could be reduced to a minimum, the expenditure on plant would largely disappear, and the department

would escape the work, annoyance, and dissatisfaction which result from the fact that every direct employee of the Government considers that he has the right to have his grievances heard by the Government.

The phrase "government stroke," or some equivalent, doubtless has a currency which is not confined to Australia and New Zealand, and if so, it is probable that outside Russia it has always much the same meaning. In a country where "one man, one vote" is the fundamental and indispensable article of every political creed, a Government is at a great disadvantage in dealing directly with labour on a large scale, and its enforced benevolence does not make for efficiency or economy. A glaring example was the Ward Government's application in 1929 of the award rate of wages (14s. a day) to relief works, in place of the 9s. previously paid to single men and the 12s. 6d. paid to married men.

The tendency of public works under the above-mentioned influences to exceed the estimates is illustrated by the Commissioners by a remarkable table the essential features of which are given below:—

Scheme.	Estimated Cost.	Capital Cost.
	£	£
Central Otago irrigation works .	362,000	527,000
Mangahao electric power .	439,000	2,400,000
Railway workshops	1,500,000	2,000,000
Westfield deviation	450,000	803,000
Waihou and Ohinemuri rivers improvement	150,000	710,000
Rangitaiki land drainage .	50,000	500,000
	2,951,000	6,940,000

The average excess of the cost of these schemes over the estimate is 130 per cent. In the Mangahao case the excess was 446 per cent., and in the Rangitaiki case 900 per cent. The Waihou and Ohinemuri scheme was started as the result of the finding of a royal commission in 1910 that the work would cost £150,000, of which one-

sixth was to be paid from the Consolidated Fund and five-sixths to be borne locally. As the result of another commission in 1921 the cost was estimated at £625,000, which was to be equally divided between the Consolidated Fund and the district concerned, but a strong local agitation succeeded in frustrating the recommendations of the commission. The land in the district is now unable to bear any portion of the capital cost, and the Expenditure Commission doubts whether even the full cost of maintenance can be collected. The Dominion, which undertook the construction of this work and the contribution of £25,000 as its share of the cost, has now been saddled with a capital expenditure approximating £750,000, and may have to find the cost of upkeep as well!

The general recommendations of the Commission are that the financing of the construction out of borrowed money should cease; that no public work should be undertaken by the Government nor assistance given to the works of any local authority, without the sanction of a non-political National Board of Works; that one of this board's duties should be to lay down definite rules for the subsidising of local works from the Public Works Fund; that the board's veto on any proposed work should be final unless overruled by Parliament; that the direct employment by the department of the men engaged on public works should cease; that all future public works should be carried out by public tender and contract—a reform which the Commission regards as so essential to true economy that it has not considered it necessary to inquire into the possibilities of economy under the existing system—and that the Public Works Department should be reduced to a staff of advising and inspecting engineers, as was intended when it was first established.

"No British colony has developed a more complete system of local institutions than New Zealand," wrote Lord Bryce in 1921.* With its present total of 696 local

* See *Modern Democracies*

authorities representing about one to every 2,000 inhabitants, the system is described by the Commission as "well beyond the needs of the community." Excluding the 46 hospital boards, which are separately discussed, the Commission reduces the total to 650, and illustrates their progress during the period under review (1915–1930) by some figures which may be tabulated as follows:—

	1915	1930	Increase Per cent.
Population	1,103,000	1,422,000	29
Local bodies, exclusive of hospital boards ..	562	650	16
Employees	13,789	24,290	76
Wages	£1,987,000	£5,945,000	199
Gross debt . .	£24,539,000	£71,208,000	191
Expenditure .. .	£6,807,000	£22,061,000	224
Rates	£2,325,000	£6,011,000	181

From these startling figures the Commissioners draw the unanswerable conclusion that a reform reducing the number of local bodies by abolishing many of them and amalgamating others, is imperatively needed. But they recommend that a more comprehensive examination of the whole problem than they have been able to make should be instituted before the reduction is started, and that this examination should extend to the present system of subsidies and grants to local authorities from public funds. These subsidies would, it was hoped, provide for the roads and bridges of the country, but that this hope has not been borne out is proved both by "the alarming growth of local body indebtedness" and by the considerable grants made by the Government for specific purposes. In 1930 government subsidies only amounted to £437,000, but the £1,515,000 provided in special grants brought the total up to £1,952,000.

As a proof that even twenty years ago the system of local government was apparently considered extravagant, the Commissioners refer to the introduction in 1912 of a Local Government Bill which proposed to abolish whole

classes of local bodies and to transfer a number of important functions, including the care of main roads and bridges, to Provincial Councils. The reference is apt, but it might have been strengthened by pointing out that the Bill was introduced by the Massey Government in pursuance of an election pledge. During the twenty-one consecutive years of the Liberal régime the government has come to be regarded as a sort of universal provider. Its control of offices and billets, of roads and bridges, supplied arguments which were not easily met. To check this influence three reforms were proposed by Mr. Massey as Leader of the Opposition at the general election of 1911. As we pointed out at the time,*

weakness and extravagance have freely been alleged and constitutional reform has been freely proclaimed, which would free the Legislative Council—at present a nominative body—the public service and the administration of local public works from political control.

The Local Government Bill of 1912 was not proceeded with, and a higher standard of administration has made the decentralisation which it promised less urgent from the political standpoint than it was; but the evil, though less gross, is still serious enough to justify the finding of the Commission that "sound administrative principles have often been subordinated to pressure exerted under the influence of both local and general politics." Addressing the electors of Bristol in 1780, Burke said:

If we do not permit our members to act upon a very enlarged view of things, we shall at length infallibly degrade our national representation into a confused and scuffling bustle of local agency.

If 150 years later Burke could have been in the gallery of the New Zealand House of Representatives when it was sitting in committee on the public estimates he might have omitted the condition, but the concluding words of the sentence would have needed no change to make them fit precisely what he saw—"a confused and scuffling bustle of local agency."

* The Round Table, No. 6, March 1912, p 381.

: expenditure on hospitals and charitable aid which
lministered by elective boards in 46 districts has
from £534,000, or 9s. 4d. a head, in 1913–14, to
1,000, or £1 5s. 10d. a head in 1930–31. The
iission considers that 16 or 18 hospital districts would
and recommends that a board of hospitals should be
ited to organise the whole service with power to close
als and to amalgamate districts. It estimates that
timate saving as a result of these recommendations
l be at least £300,000 a year to the Consolidated Fund,
the saving to the rates is impossible of calculation.

full amount of the assessable savings recommended
22,000 in respect of the permanent charges and
oo in respect of the annual votes, making a total of
oo. Added to the economies, amounting to
5,000, recommended in the Commission's previous
, these figures bring the total up to £3,761,000,
enting about 15 per cent. of last year's expenditure.
s total the Government has already adopted recom-
itions accounting for £2,097,000, but some of these
nies will increase in later years, and those recom-
ed in the final report did not come into operation till
st quarter of the current year had passed.

it is from those items which cannot be assessed in
—the drastic proposals of the Commission on the
issues of policy already mentioned—public works
istration, local government, hospital administration,
ie superannuation funds of several branches of the
service—that the country is likely to derive the
st benefit from the recommendations of the Com-
n. And it is satisfactory to report that on the last
the Government is already taking action, though it is
n the very last that it is so far following the exact line
ed by the Commission.

r Zealand.
ecember 24, 1932.

New Zealand

APPENDIX

Revenue and Expenditure 1931–32

Expenditure	£
Debt services	10,511,989
Pensions and family allowances	3,075,415
Motor taxation transferred to Main Highways Account and local bodies	1,807,666
Unemployment subsidies	1,130,231
Hospital subsidies	642,809
Under other special Acts	686,352
Total permanent appropriations	£17,854,462
Annual votes	6,631,617
Exchange	374,473
Total net expenditure	£24,860,552
Revenue	
Taxation—	
Direct	8,200,479
Indirect	7,989,488
	16,189,967
Interest	2,868,138
Other receipts	2,166,803
From reserves	1,494,825
Total revenue	£22,719,733
Deficit	£2,140,819

Estimated Expenditure 1932–33 *

	£	
Debt services	10,012,000	
Transfer of motor taxation	1,110,000	
Exchange	350,000	
Other permanent charges	473,000	
Total permanent appropriations		11,945,000

* These estimates are not fully comparable with the revenue and expenditure figures for 1931–32, as, owing to a change in the law, a large part of the expenditure hitherto covered by permanent appropriations is now included in the annual votes.

	£	£
Social services	6,870,000	
Defence	631,000	
Law and order	688,000	
Development of primary and secondary industries	897,000	
Administrative and general .	1,476,000	
Total annual votes		10,562,000
Total estimated expenditure . .		£22,507,000

Estimated Revenue

Taxation—		
Customs	5,700,000	
Beer duty	640,000	
Film-hire tax	35,000	
Motor-vehicles—duties and licences	1,610,000	
Stamp and death duties ..	2,900,000	
Land tax	515,000	
Income tax	3,400,000	
		14,800,000
Interest—		
Railways . .	740,000	
Post and telegraph . ..	540,000	
Public Debt Redemption Fund .	645,000	
Other public moneys .. .	625,000	
		2,550,000
Other receipts—		
From reserves	2,500,000	
Post and telegraph profits . .	470,000	
Other items	1,310,000	
		4,280,000
Total estimated revenue .		£21,630,000
Estimated shortage		£877,442

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THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE BRITISH COMMONWEALTH

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THE RECOIL FROM FREEDOM

MANY have asked themselves during the last few weeks whether the victory of 1918 has not been almost undone. While the principal Allies, as they were known during the world war, France, the British Commonwealth and the United States, are still wedded to free institutions, much of the rest of the world, Russia, Italy, Turkey, and now Germany, have apparently thrown them over and substituted dictatorship in some form in their place. They have not restored their pre-war forms of government, but created entirely new systems, communism and fascism, with different ends in view but equally based on dictatorship by a single popular party. Does this mean that the theatre is set for another world war between tyranny and freedom ? It is by no means certain that this conflict need arise. It depends partly upon what communism and fascism evolve into and partly on how the countries still wedded to the parliamentary and liberal system react to the terrific stresses of the present age. It may be that the existing phase of dictatorship in Germany and Italy, and even in Russia, will pass away. It may be that there are elements in the experience of Russia, *e.g.*, planning, or of Germany and Italy, *e.g.*, national discipline, from which the liberal Powers may have something to learn. But it is obvious that the complacency with which people, at least in the British Commonwealth and the United States, have assumed that the results of victory of 1918 would maintain themselves is no longer justified and that they must consider seriously how freedom is to be preserved in the world of to-day.

I. The Meaning of Freedom

WHEN we talk of freedom in the political sense of the word what do we mean ? In substance we mean the basic ideas which derive from the civilisations of Greece

and Rome, and from Christianity, and which, after long struggles, have become enshrined in the judicial and political institutions of the western liberal Powers. In essence these ideas fall into two groups. There are first the constitutional guarantees of individual liberty, guarantees embodied in Great Britain in Magna Charta, the Bill of Rights and countless legal decisions, and, in other liberal countries, in other similar enactments. Under these guarantees the individual is protected against violence and wrong from other members of the community, and against interference or arrest by the State, save by due process of law administered by courts which are independent of the executive and concerned only with the interests of justice and not with *raisons d'état*. Secondly, there are the constitutional guarantees that government shall be based on the consent of the governed. In recent times this has come to mean that the executive government shall, under the parliamentary system, be in the hands of those who can command a majority of the members of the legislature elected at a general election, or, under the presidential system, of the electors, the electorate consisting in both cases of the whole adult population. What is probably more important, freedom means freedom of public meeting, freedom for the expression of political opinion, and freedom of the press, so long as these do not involve incitement to violence or immorality, libel or other encroachments on individual rights, for this means that in the long run the controlling power behind the government is public opinion, and that public opinion is not "made" by government but is the outcome of the free play of thought in the community itself.

The basic convictions underlying freedom as a political creed are twofold: first, the conviction that every human individual is entitled to equal rights before the law, and that he ought to and can acquire the capacity both for self-government and to think for himself, and secondly, the conviction that human progress will spring from giving

free play to individual initiative, imagination and character, not from enforced obedience to constituted authority. Freedom leads inevitably to democracy as the system which enshrines the principle of individual responsibility, and is the best guarantee that law and government will, in the long run, rest upon the consent of the governed.

As against freedom stands the principle of autocracy, political and religious. Fundamentally autocracies do not believe in the capacity of the individual to think for himself or to govern himself. They believe in authority, that the State or the Church or some other human institution must direct and govern, and that the people must obey. Hence, by an inevitable logic they are anti-democratic, substituting conformity, propaganda and the repression of opposing opinions by arbitrary power for freedom of individual judgment. Inevitably, too, individual rights begin to be subordinated to the purposes or policies of the government.

The free system is not easy to maintain. Over and over again in history it has been overwhelmed through internal decadence or by external attack. It depends upon there being enough education, public spirit, independence, initiative and self-sacrifice in a sufficient number of persons to enable them individually to resist the demoralisation that freedom makes possible, to ensure that freedom is not contracted by reaction, but extended to meet the changing conditions of the modern world, and to maintain the reign of law and vigorous progressive government. There are some, indeed, who believe that the statement of St. Paul is true that "where the spirit of the Lord is there is liberty," and that without an adequate element of free and vital religion, a free system cannot last.

II. The War for Freedom

BEFORE the war freedom had been steadily if slowly growing in the world, both in the greater security that it won for individual rights and in the spread of democracy.

It was even challenging from within the great military autocracies of Germany, Austria-Hungary and Russia, and was breathing life into the old static civilisation of Asia. But freedom, before the war, had made little headway in the international sphere. Nations lived in a state of anarchy. They claimed unlimited sovereignty for themselves, had the legal right to make war, to conquer and annex as they chose, and international law was rather a code for mitigating the risks of anarchy than a system of law for securing freedom and justice among the members of the *family of nations*. In the last resort, in international affairs as in the jungle, might was right.

It is not necessary to enter upon a discussion of the origins of the world war. Disinterested opinion recognises that it was partly the inevitable outcome of pre-war international anarchy and partly an attempt to forestall the advance of democracy. As it ran its course, however, and especially after the Russian Tsardom collapsed, the war became more and more clearly a struggle between the liberal ideals which prevailed among the western democracies and the autocratic ideas which were dominant in Germany, Austria-Hungary and Turkey.

The victory of the Allies led to two major results. On the one hand, the liberal and democratic system spread, sometimes by revolution, over the whole of Europe and had profound effects in Asia Minor and the Far East as well. On the other hand, an attempt was made through the League of Nations to begin the foundations of the reign of liberty and law in the international field. The principles upon which the Peace Treaties were based were clear. Every civilised nation was entitled to independence and to the right to govern itself. Disputes between nations were to be settled not by war, or by a diplomatic trial of strength, but by reason and justice ascertained by arbitration or judicial decision or conference. International problems, especially those which might threaten the peace, were recognised to be the concern of the whole world and

were to be discussed at the regular meetings of the Council and Assembly of the League. Disarmament was to be made possible and security increased by a system of mutual guarantees whereby members of the League were bound to support one another against unprovoked aggression.

It is true that these principles were imperfectly applied. Some of the frontiers in Europe were, in certain respects, unjust. Certain temporary features of the treaties were very onerous and kept the ex-enemy Powers for a time in a state of subjection. The reparation obligations, like the claims for war debts, were grossly impracticable. And the Peace Conference, while devoting a great deal of attention to the political problems, paid almost none to the economic. It made no attempt to limit tariffs and other impediments to international trade, or to recognise that economic problems, like political problems, ought to be considered collectively in a rapidly shrinking world. None the less the broad effect of the war was an immense extension of the formal boundaries of freedom. And the League of Nations was intended to be the instrument by means of which, given leadership and good will, the defects of the Peace Treaties could be peacefully remedied, armaments reduced, security enhanced, and changes in the political structure of the world, made necessary by man's ceaseless activity, adjusted peacefully and without war.

III. Post-War Deterioration

UNFORTUNATELY, the price of freedom is eternal vigilance, and that vigilance was not forthcoming. The United States almost immediately retired to co-operation, rejecting the League of Nations and the Anglo-American treaty of guarantee, and resuming a policy both of political and economic isolation, while at the same time she demanded repayment of her war-time loans to her allies. Great Britain refused to implement the treaty of guarantee in unilateral form, though she offered one at

Cannes in 1922 to France, who then rejected it. France, deprived of the guarantees on which she had relied, fell back for security upon a system of military alliances with Poland and the Little Entente, the purpose of which was to ensure the integral enforcement of the Treaty of Versailles, and in 1922 she entered the Ruhr to compel the observance of the reparation clauses of the Peace Treaties, and to prove to those elements in Germany which sought to evade the treaties that fulfilment was a condition of Germany's existence. The League came into being, immensely weakened by the refusal of the United States and Russia to join it. It has functioned well as a clearing house for world affairs. But partly because it did not contain the United States, and partly because stability in Europe had come to be based on the military preponderance of France and her Allies, the League never acquired sufficient authority to enable it to bring about such revisions of the treaties under Article 19 as were reasonably necessary, or to create that alternative system of security against aggression which is the condition of disarmament. Still less was it able to effect a lasting settlement between China and Japan in the Far East.

But if there has been failure to bring stability to the world in the political field, the failure in the economic field has been far greater. Except for the creation of the International Labour Office, whose purpose was to try to bring about voluntary agreements protecting the standard of living of the workers, every government was left free to do what it liked economically. The League system provided for no regular conference about economic problems, nor was any restraint on economic nationalism suggested. For a time economic recovery was extraordinarily rapid so far as the stabilisation of currencies, the balancing of budgets, the restoration of devastated areas, and the restarting of international trade were concerned. But there were two factors, the full effects of which were hidden for a

time, which made a return to economic prosperity increasingly impossible. The first was the gigantic claims, on the one side for reparations, and on the other for war debts, claims representing money spent on devastation and not on construction, which, added to the interest on private international investments, involved an enormous one-way traffic in goods, services or gold, with no counterbalancing flow of trade in the opposite direction. The second was the multiplication and heightening of tariffs and other barriers to trade as a result of the creation of new nations and the growth of nationalist sentiment, the effect of which was to tend to make nations produce the same things instead of exchanging their own specialities with one another. For some years between 1924 and 1929 the profound maladjustment of the economic life of the world, made inevitable by these two factors, was disguised by a series of foreign loans, largely to Germany, by the United States and Great Britain, a series which for the time being enabled the inward and outward streams of trade more or less to balance. But these vast loans could not continue indefinitely. They were brought to an end by the stock-exchange boom in the United States, the dislocation of supply and demand caused by uneconomic debt and tariffs became clear and the great depression set in. As markets became glutted and prices fell it grew more and more difficult for nations and business men to meet their obligations, the monetary system of the world ceased to function under the strain of trying to meet a one-way stream of debt payments, governments rushed into a policy of higher tariffs, exchange embargoes, prohibitions and subsidies in the desperate effort to shield their own producers from the dumping of products offered at a price far below the cost of production, and to protect their own currencies, thus still further blocking international trade, aggravating unemployment and unbalancing budgets.

This dislocation of the economic life of the world had

profound results on the political situation. It intensified unrest, weakened the authority of the parliamentary system, strengthened the revolutionary parties and in certain countries led to the establishment of dictatorships as the *only* method of maintaining order. Moreover, with every month that passes vested interests are everywhere growing up behind these new national restrictions, and it is becoming more and more difficult, if it is not already impossible, to restore anything like the pre-war freedom for international trade. The World Economic Conference ought to show clearly how far we can expect to retrace our steps, and how far we have permanently entered a new world in which high protection, embargoes, quotas, import and export boards and similar methods of conducting a kind of systematic barter between nations, largely self-sufficient, have come, whether we wish it or not, to replace the pre-war order of things.

It is important, therefore, to consider the significance of the two movements, namely communism and fascism, which have come to a head since 1914, and which seem to challenge those ideals of liberty, democracy, economic freedom and a League of Nations, which triumphed in 1919.

IV. Communism

THE communist creed is not a product of the war. It had been forged long before by Marx and Lenin. But it was the war which produced in Russia the peculiar conditions which enabled a small band of determined Marxists, led by a man of genius, to overthrow both the Tsardom and the liberal provisional government, and to establish in its place the dictatorship of the Communist party in the interests of the proletariat. As an idealist theory communism makes an undoubted appeal. The doctrine that the earth and its fruits should be developed and organised for the benefit of the whole people, that reward should be conditional on work, and

supply related to need, and that as far as possible men should have all things in common, and not live by usury or the ownership of the means of production by which the community lives, is very much that of the early Christians. The trouble with communism has been the method by which Lenin and his successors have sought to realise their ideal, for that has little or nothing in common with Christianity. The essence of the communist method is a ruthless class dictatorship, involving the total abolition of private property at a single stroke, the persecution, indeed, in many cases, the extermination of the bourgeoisie and the kulak, the suppression of individual rights before the law, of freedom of speech and the press, of public meeting and political association, and the concentration of every instrument for forming or guiding opinion, the schools, the universities, the press and the news agencies, in the hands of the Communist party. If this dictatorship had produced or, after sixteen years, showed any prospect of producing, a millennium, and of relaxing its ferocity and basing the new order that it has created on the free consent of the governed, the savagery of its early years might be forgotten. But it is becoming more and more evident that the communist thesis that it is possible for government to organise every aspect of the political, social and economic life of a people, and to produce either satisfactory material conditions or an ennoblement of the human spirit, or a sense of freedom, has been proved to be wrong. The standard of living in Russia to-day is below that of the period of the N.E.P., the dictatorship is more ruthless and unrelenting than ever in its devastating effects on the mentality both of rulers and ruled, and over a considerable part of its field the Five Year Plan of economic rehabilitation has broken down. There is no sign as yet of any change in the régime. It may manage to get its organisation into some kind of working order, but it seems clear that communism is not going to be, even on the material

side, a success, that the peculiar revolutionary method of class dictatorship is not applicable to highly industrialised western Powers, and that peoples who have experienced liberty have decided that the evils of capitalism are preferable to those of communism.

This does not mean that socialism, as an ideal, will not make headway in the west, especially if, for the reasons we have already given, the old pre-war economic order has been fatally undermined. For, in essence, the moral appeal of socialism is that it seeks to secure to every individual citizen the same kind of security, equality and freedom in the economic field that he already enjoys in the political and before the law. If liberty, indeed, is to mean anything it must produce this result. But socialism, if it is to succeed, will have to divest itself of its Marxian trappings. It will have to throw over the old dogma that the entrepreneur capitalist, the person who organises capital, talent and labour to make some improved product or to render some improved service of value to the community, at a profit, or often at a loss to himself, is necessarily a villainous exploiter. It will have to abandon the idea that progress in the industrial west can be achieved by abolishing all private enterprise and substituting universal nationalisation run by an all-pervading bureaucracy. And it will have to produce a plan for socialism which, in the minds of reasonable people, is likely, in practice, to lead to the abolition of unemployment, and to give to all an adequate and a rising standard of living without the destruction of freedom. If socialism can produce such a plan no resistance on the part of the propertied classes will prevent it from being carried by constitutional means, if it is clearly in the interest of the community as a whole. In fact, socialism can only be carried by constitutional means, and if it attempts to resort to methods of revolutionary violence based on an appeal to class feeling, it is almost certain to be anticipated and suppressed by a fascist dictatorship. So far British

sm, like continental socialism, has not succeeded in cing such a plan, for the proposal to nationalise ry and agriculture by instalments seems bound to fail. ıld do little or nothing to solve the vital problem of yment or of finding markets; it would either mean :ation from a class of property owners only, or the to them of the security of the taxes in place of the ss they previously owned. It looks, indeed, to-day ocialism in Great Britain, and indeed in the liberal will more and more move away from nationalisation ls a system of "planned private enterprise."

V. Fascism

ƷCISM, unlike communism, is not the outcome of deliberately thought-out creed. It has arisen from essure of post-war events, and varies according to untries in which it thrives. It is fundamentally the ne of two causes. The first has been the necessity ıting a counter-organisation to resist the violent and tionary tactics of communism in countries where ry police methods have begun to fail. The second en the conviction that the slow-moving deliberative nentary system, with its changing and weak govern-, could not make the changes needed by the times, ıat a more dynamic executive power must take ce. Fascism is by no means a merely reactionary ıent. On the contrary it contains a strong ingredient alist doctrine. If it objects to the proletarian State d of communism, it objects equally to the pluto-State in which public policy is controlled by capitalist king interests. Thus the "unalterable" programme Nazi party in Germany on which it has fought all ctions demands the "abolition of incomes unearned rk" (clause 11), and its financial principle is stated ttfried Feder, the official interpreter of its policy, in

the 1932 election programme as follows: "Finance shall exist for the benefit of the State; the financial magnates shall not form a State within the State. Hence our aim is to break the thraldom of interest."

The constructive side of fascism rests upon the idea of the corporate State. It does not abolish private property or nationalise the means of production, distribution and exchange, or seek to run them exclusively by government officials. It retains the services and initiative of those who have made and created the industry, agriculture and transportation and distribution systems of the day. But it considers that the State must stand above and outside all interests, whether of capital or labour, and be strong enough to prevent either capital and labour or any other interest from taking anti-social action and to compel them to conform to what is in the interests of the community as a whole, because "the general welfare is the highest law of all." For this reason, while preserving universal suffrage as the ultimate test of popular sanction, it substitutes for the attempt to adjust a continuous conflict of interest and opinion in Parliament the dictatorship of a party controlled by those who are prepared, while consulting the interests of capital and labour, to govern autocratically in the interest of the community as a whole. For it considers that nothing but the will of a dictatorship sternly enforced is strong enough to bring about the profound social and economic reorganisation to which the world is now being driven by the progress of science and the economic dislocations begun by the war.

Such is the political theory of fascism. In Italy, under the iron hand of Mussolini the corporate State has come into being. In Germany, the Nazi movement has succeeded in seizing absolute power, but has not yet formulated its programme of reconstruction.

It is too early to judge of the future of fascism as a world movement. It is growing more rapidly than socialism, and in its claim to put the community above any class and to create a government strong enough to master the social

consequences of the economic crisis which to-day affects every country alike, it has an appeal which is related to the facts of the time. Nor is there, inherently, any reason why fascist States should not work successfully a League of Nations system, for their preoccupation with economics must make them even more aware of the devastating consequences of war, and of the benefits of settling disputes by pacific means, than the less economically minded States which went to war in 1914 and made the peace in 1919.

But fascism, like communism, is liable to be a very different thing in practice from what it claims to be in theory. For it seems to be almost as much in love with dictatorship as an end in itself as communism, though it substitutes, especially in Germany, an appeal to racial pride and ascendancy for the appeal to class feeling as its main driving power. Like other revolutionary movements, it has drawn its strength from the intemperate enthusiasm of youth—youth which knows little of what war really means or of the fatal risk of violent short cuts to idealistic ends, and which sees in the seizure of power the surest prospect of employment for itself in a disorganised world.

No doubt, the Nazi revolution in Germany represents to some extent a healthy national resurgence against the defeatism engendered by the defeats of 1918 and later years, and a desire to purify and discipline the national life from some of the corruption which has been manifest since the war. But the corruption and inner decay caused by a dictatorship based on racialism and violence are far more subtle and far reaching in their effects than the corruption engendered by freedom, and far more difficult to remove. The undiscriminating brutality of the "Brown terror," especially its inhuman persecution of the Jews merely on the score of race and regardless of whether the individual was or was not a loyal citizen, cannot make for the greatness or independence, or power of initiative of the German people. The suppression of an independent press and independent political controversy, the principal means of

enabling people to learn to think and act for themselves, the constant pressure of terror brought to bear on people by a secret police, and the streams of tendencious propaganda flowing from sources controlled by government, are evils far more devastating and devitalising to the soul of Germany and menacing to the world, if they are continued, than the evils against which the Nazis protest. Let us hope that the ruthless attempt of the Nazis to identify a party with the State is a passing phase, and that a revitalised, purified and progressive Germany, in which individual freedom and freedom of public opinion are restored, will soon reappear. But for the moment the liberal nations cannot fail, while suspending judgment, to be on their guard. For history warns us that dictatorship and brutality and the worship of force at home tend in due time to express themselves also in foreign affairs. And, if that is so, and the present Nazi phase becomes permanent, it can only be a question of time before Germany challenges those essential international gains for freedom which were the outcome of the sacrifices of the war.

VI. The Future

IT is evident that the pleasant assumption which has underlain most people's thinking since 1919 has been rudely challenged. We can no longer take for granted that there is going to be steady progress along democratic lines all over the world, that international trade is destined to recover, that we can maintain the broad type of economic civilisation which has existed hitherto while improving it in detail, and that the nations are going to disarm because they are learning how to solve their differences by pacific means under the Covenant of the League of Nations or the Kellogg Pact. Dictatorship or reaction in some form is now in the saddle over about two-thirds of the world. The prevailing tendency is for nations to become more "autarchic" and self-contained and to move away from international trade.

If this tendency continues it cannot fail to have profound consequences both in the external and the internal policies of the liberal Powers. However anxious they may be for disarmament, and for lower tariffs and freer trade, they may be forced to admit that the defence of freedom from external menace must become their primary concern. And the drying up of international trade may compel them to a degree of internal economic reorganisation and planning, on lines not unlike those advocated both by socialists and fascists, as the only means of adapting their own economic life to what is going on in the rest of the world.

At the moment, the essential thing is to do everything possible to support the League of Nations and the Kellogg Pact. The League indeed is more important than ever. For however their internal structure may differ it is essential that the nations should continue the habit of sitting round a common table to discuss their hopes and fears and needs. Nothing short of this will bring home to all the necessary limits of national policy, both political and economic, in a congested world. The future of civilisation clearly depends upon the nations developing some system for the pacific settlement of disputes, and some economic organisation enabling nations to live in reasonable prosperity. But if it is impossible to organise the whole world for these purposes then the liberal Powers ought to organise their own portion of it so that freedom and prosperity may be assured within it. What does this mean in terms of immediate policy?

Let us deal first with the economic side. On an earlier page of this article we expressed the view that the principal reason for the catastrophic fall in prices has been the economic dislocation caused on the one hand by one-way international trade made inevitable by international debts, especially reparations and war debts, and on the other hand by new and higher tariffs, embargoes and subsidies, prompted partly by nationalism but partly also by the necessity of countering the detrimental effect of demands for

reparations and debts, both governmental and pri
on domestic industries and currencies. The extent of
debt obligations and their effect on the exchanges i
cussed elsewhere in this issue.*

The first object of the liberal and democratic Pow
the World Economic Conference, which is to assemb
June 12 in London, should clearly be to remove or l
these double causes of depression. It should ende
to take effective steps to eliminate reparations and
debts because of their effect in producing a purely on
trade, to restart international lending so as to
possible the payment of private international debts, a
such inter-governmental debts as still remain, to est
some form of stable international currency, to elim
embargoes and prohibitions, and to reduce tariffs and
sidies for a period sufficient to enable business to ma
plans with confidence. If it can do these things
wheels of international trade will begin to move a
prices will begin to rise, thus facilitating the removal
other obstructions, and the march towards revolution
dictatorship in the world will be arrested. Bu
failure of the Conference to achieve results would inev
throw the world back on nationalism again both in po
and economics, would strengthen the forces which star
dictatorship and violence, and would have an effect o
internal economic position of even the most stable P
that no one can foresee. We should then have to con
whether new economic arrangements could not be
over a more restricted area, such as the English spe
world.

Let us turn now to the political side. The best sec
that the gains of the world war in liberty will be safe
still further challenge by reaction prevented is a
association between the great liberal and demo
Powers, the United States, the British Commonwealt
France, in defence of the ideas on which their own ci

* See page 535.

tions are based. And that means the re-entry of the United States into world affairs in some form under the Kellogg Pact.

Some revision of the structure created in 1919 is also necessary. The word " revision," indeed, has already been officially pronounced as an essential for lasting peace. We publish an article elsewhere which describes what territorial revision would involve.* But we think that when the time for revision comes it must include not only those elements of the Peace Treaties which may be unjust or out of date, but a reconsideration of the Locarno Treaties and a clearing up of the interpretation to be put upon the so-called " sanctions " clauses of the Covenant of the League of Nations. Both the Covenant and the Locarno Treaties were drawn up and signed upon certain assumptions which no longer hold good. The Covenant assumed that all the nations of the world would join the League, and that the great majority of the powerful nations would be in active sympathy with its principles. On that understanding it provided for guarantees under Article 10 and Article 16 which involved " automatic " economic sanctions and might involve military sanctions. Such guarantees might be suitable and effective in a League which embraced the whole world. They are obviously impossible in one which does not include Russia and the United States and Japan, and some of whose most powerful members can now hardly be relied upon as enthusiastic champions of its ideals. Some of the principal difficulties of the post-war period have been caused by uncertainties as to the meaning of the sanctions clauses, and as to how far Great Britain alone could make good the defection of other Powers. It is now generally recognised that Articles 10 and 16 no longer possess an " automatic " character. It was formally stated by Sir Austen Chamberlain before the Locarno Treaties were signed that Great Britain could undertake no military responsibility in

* See page 584.

trying to bolster up a European structure which has no prospect of developing any inherent stability of its own.

It is exactly the same with the British Commonwealth. Since 1919 the problem of inter-imperial relations has been subordinated to the Geneva system. Great Britain has undertaken unilateral obligations in Europe, to which the Americans have not been parties, in the interests of that system. But, if the authority of the League is further weakened and dictatorship spreads, that cannot continue, and the question of inter-imperial relations will come to the fore once again. For in a world in which force may be more important than reason, the power of the nations of the British Commonwealth to support world peace or to defend themselves will depend upon their own unity and capacity to act together. Individually they are weak and liable to be defeated in detail. Collectively, and especially in association with the United States, they would be secure.

There remain the questions of revision of the Treaties and disarmament. The position seems quite clear. The first point to determine is whether Germany and the other advocates of revision want to upset the principles of the Treaty settlement or whether they are merely concerned to remedy incidental injustices and defects in it by consent. If they mean the latter, the whole question of revision and equality in armaments ought to be taken in hand as a single whole without delay, with a view to making a final and agreed settlement. But if by revision is meant throwing the Treaty settlement into the melting pot, questioning the right of European nations to self-determination, the inclusion of majorities of other races in Germany or Hungary or other countries against their will, or transfers of large colonial territories, then the only course for the signatories to the Peace Treaties will be to refuse discussion and to resist any change in the disarmament provisions of those Treaties until a revision has been reached over the whole field which is accepted as final on all sides.

PRESIDENT ROOSEVELT'S PROGRAM FOR RECOVERY

THIS article must leave tomorrow, May fifth, on the *Majestic*. A week will go by before the printer gets it, and there will be another two weeks before it is read. It seems hopeless to try to set down anything here that will be worth reading three weeks from now. For affairs are moving at a swift pace in the United States and the future is quite unpredictable. A review of some of the things that have happened since Mr. Roosevelt took office on the fourth of March will, I think, substantiate that statement, and will lend support to the opinion, held on many sides, that this country is at a turning point in its history. If that should prove to be the case, then those who write the books will begin a fresh chapter with the day when Franklin Roosevelt became President.

On that morning between thirteen and fifteen million wage earners were without jobs. (It is a fact that no one knows, within two million or so, how many unemployed there are.) Every charitable organization in the land was taxed to the breaking point. The public relief funds of many States were exhausted. Farmers were in open armed revolt against the sheriff and the auctioneer. The streets of cities were lined with beggars and blocked with queues of men waiting for coffee and bread. Millions of men and women and children were in terror at what they saw as they looked into the eyeballs of starvation—a mass of patient, beaten, hopeful beings—infinitely patient, cruelly beaten, pitifully hopeful—a black backdrop to the pageant of the inauguration. They understood what the new President meant better than he understood it himself.

Values have shrunk to fantastic levels; taxes have risen; our ability to pay has fallen; government of all kinds is faced by serious curtailment of income; the means of exchange are frozen in the currents of trade; the withered leaves of industrial enterprise lie on every side; farmers find no market for their produce; the

savings of many years in thousands of families are gone. A host of unemployed citizens face the grim problem of existence. Only a foolish optimist can deny the dark realities of the moment. . . . We must act, and act quickly.

By the night of Thursday, March 2, the bank deposits of twelve States—all the deposits in all these twelve States—lay behind closed doors, safe from the feverish fingers of the people who demanded them back. By Friday morning the number of States had increased to twenty-three; by Friday afternoon thousands of depositors were fighting to reach the cashier's window at the Bowery Savings Bank in New York City, the largest savings institution in the world. By Saturday morning—the day of the inauguration—every bank in Illinois, New York, Iowa, Missouri and Minnesota was shut by Governor's proclamation and every securities market in the country was closed. At one c'clock on Saturday Roosevelt was sworn in. He made his way slowly and without help across the platform. He stood without coat or hat in a bitter March wind. He spoke briefly and bravely. "In this dedication of a nation," he concluded, "we humbly ask the blessing of God. May He protect each and every one of us! May He guide me in the days to come!"

On the next night two proclamations went out from the White House. The first called Congress "to convene in special session at 12 o'clock noon on the ninth day of March 1933, to receive such communication as may be made by the Executive." The second decreed a four-day bank holiday throughout the United States, "and that during the said period all banking transactions shall be suspended." There is no room in these few pages to discuss at length how every bank in the United States got closed. As a matter of fact, the situation was handled so well, and so much has happened since then, that the fifth of March already seems almost as far back in the "white water" of events as the collapse of the Credit Anstalt in the spring of 1931. It is impossible to recount here the

labors by which most of the banks were re-opened in one week's time: or to write of the various currency expedients proposed in many States, adopted by a few, and then discarded before there was a real chance to try them out. And one can merely make a note of the serenity and sportsmanlike spirit with which the catastrophe was met, and the incredible faith in the President which this attitude attested.

The national banking system collapsed under the combined pressure of domestic hoarding and the flight of foreign short-term balances. An increasing number of inland depositors had sought to protect themselves by getting their hands on hard cash: interior institutions had called home their balances held in New York: foreign depositors caught the fever and converted their banking credits into gold. Uneasiness in the smaller towns and cities was increased by publication of the list of emergency advances to banks which had been made by the Reconstruction Finance Corporation; doubts concerning the true condition of the big New York financial institutions spread like wind as the result of a Senatorial investigation into the affairs of the National City Bank and the conduct of its President, Charles E. Mitchell. All these small clouds were blown into something huge, then ominous, then filled with thunder and lightning by the declaration of a bank holiday by the Governor of Michigan on February 14. But behind this March madness, and the cause of it all, was the long, slow deterioration of values—the cash values of commodities, stocks, bonds and real estate. The banks collapsed because of the collapse of prices. Thus the spiral of deflation ran its full downward course. Beginning with the stock market *débâcle* of 1929, intangible and tangible goods had been converted into cash because prices were tumbling, the resulting deposits in banks had been converted into currency because of apprehensions concerning the safety of banking institutions, and currency had been converted into gold because of doubts concerning the stability of all paper money except gold certificates.

President Roosevelt's Program for Recovery

The fury of the final stages of the three and a half years' panic may be measured by noting that between February 8 and March 8, in one month's time, the gold reserve declined by $555,000,000, and money in circulation increased by a billion and three-quarters dollars. On one day alone, Friday, March 3, the day before Roosevelt's inauguration, $116,000,000 in gold was withdrawn from the Federal Reserve Bank by frantic thousands who brazenly took what they could lay their hands on, and ran—a destructive, disgraceful, and quite comprehensible performance—comprehensible, that is to say, to an American: for we live in a community of 120,000,000 people, most of whom do not realize that a deposit in a bank is a loan. We enjoy a bad banking system, administered by persons who have proved themselves quite inadequate in this crisis. Those of you who live in the British Commonwealth are in these respects more fortunate: therefore, by you, these events may *not* be understood.

Be that as it may, Mr. Roosevelt had to deal with them. On March 9, in the promised "communication from the Executive," he asked Congress to confirm the emergency action which he had taken on the previous Sunday under a wartime Act of 1917. He asked for power to open the closed banks, to license exchange transactions, to control the export of gold, and to refuse demands for it at home. He requested authority to ease the statutory conditions under which a limited amount of new currency might be issued. Before Congress convened, the Secretary of the Treasury had sent out an appeal for the return of gold and gold certificates, presumably in order to increase the coverage behind the national note issues. Three things were then vital: First, to set the financial machinery in motion again; this was accomplished by the gradual reopening of banks holding 90 per cent. of the nation's deposits, and by providing new currency for these banks where necessary against the pledge of Government bonds. Second, to induce depositors to use their banks once more

through the Government's moral guarantee that the "sound" institutions which had been licensed by the Treasury to reopen would not be permitted to fail. Finally, it was imperative to establish faith in the eventual convertibility of the new currency into gold, by recalling as much of the hoarded metal as possible into the Government's hands. These things were done, and from the moment that the Administration did them, rapidly, boldly and confidently, it became clear that a new hand was at the wheel. Gold was to be exchanged for currency, first as the result of an appeal, and then, if necessary, by penal legislation; currency was to be exchanged into bank deposits by making the banks safe for the depositor; and, lastly, as the program became clearer, bank deposits were to be exchanged into goods, and this was to be brought about by "reflation"—a deliberate attempt to lift prices from the panic levels to which they had fallen.

II

THE emergency banking legislation requested by the President was passed by the House of Representatives by unanimous vote and by the Senate by a vote of 75-7 as soon as Congress met. On the following day the President requested that he be given full authority to reduce war veterans' allowances and government salaries, and to reorganize government departments. On Sunday, the twelfth, he spoke on the radio, explaining in reassuring voice and in simple words precisely what had happened to the banking machinery. It had been overhauled, and now it might be safely used again. On Monday, after a week's holiday, the first "sound" banks were reopened, and the President, pursuant to his campaign pledges, asked Congress to legalize, and tax, the sale of light wines and beer at once. With these powers in hand, it was proposed to balance the budget—and specifically, to realize what even Roosevelt's admirers had regarded as a campaign phantasy, the reduction of the normal budget by a billion dollars.

Though some of the legislation for which he asked was delayed for a few days, the national credit was bolstered up by the evident intentions of the Administration, and on the fifteenth of March the Treasury was able to market $700,000,000 refunding notes at a rate of interest no greater than that which prevailed prior to the banking holiday.

Looking back upon these swiftly moving events, one is impressed by the coherence of the President's emergency program and its plain courage. For he over-rode the interests of millions of his people (so they thought) by refusing to let their particular banks open: he grasped the nettle of war veterans' allowances firmly, reducing them by almost half a billion dollars, thereby correcting an evil which no President in American history has dared to attack; he displeased thousands employed in the civil service by slashing their salaries substantially; he secured his reforestation program with its wage of a dollar a day at the cost of a fight with the American Federation of Labor; and he overthrew the "dry" lobby by restoring beer to the country within two weeks of taking office. He showed himself to be master of Congress, master of minorities, master of the situation. He maintained an unequivocal determination to balance the normal budget: by the third of May he announced that in the exercise of powers granted to him, the normal budget was so near to balance that the result was practically assured; and he reported savings in appropriations of $880,000,000 with the promise that the final $120,000,000 would still be achieved.

So far the program was easy to understand. The measures were necessary, they were logical, they were magnificent. But except as the honorable fulfilment of campaign promises, and the provision of a bit of bread and a peep at the circus by way of the beer Bill, and except for supporting that expensive and exacting mistress, the national credit—where was the New Deal? Beer-making and all the collateral arts, from cooperage to bartending,

be advanced and profits might show here and there; fter all, four billion dollars stayed locked up in closed and *that* wasn't good for the country. Govern- spending had been cut down a billion more, and 'as not good for business. Deflation had brought the d States to the brink of ruin, and the first acts of :w Administration had done nothing but intensify rocess. It cannot be said that the prestige of the ent suffered. His personal popularity was, and is, ιous. He maintained, through all these first weeks llaboration with Congress, a power which it was s to contend with, even if there had been the dis- ɔn to do so. And as the rest of his program of recon- ion became known it was clear that the President is advisors did have a program for recovery—which ged measures of relief for the farmers and small house s whose property was under mortgage, a scheme for nployment of a quarter of a million men in reforesta- a plan for developing the resources of the Tennessee r by operating the gigantic unfinished power plant ιscle Shoals, and a program of public works involving ɛpenditure of some two billion dollars, calculated to le work for a considerable number of unemployed. ιt for the last of these projects, Congress has either l the necessary legislation or has it under consideration, little doubt as to the outcome. Nor is there great in conservative circles over the effect of spending nment funds in these ways. Projects which add to ιaterial wealth of the country and its future earning may not improperly be considered as capital outlay distinguished from the budget of current expense. , too, they put money in circulation, provide work, late industry and restore confidence, they are to be ned. But it cannot be denied that the right wing ly bewildered by the Bill to raise the price of farm cts now under consideration by Congress, and ιghly alarmed by the possibilities of the so-called

Inflation Bill, which has been attached to it as an amendment. It is significant, they feel, that both houses of Congress have already passed the "dangerous" amendment by overwhelming majorities, even though they have not yet reconciled their differences with respect to the principal Bill. Under the latter measure the farmer, in effect, is to be paid a bounty to reduce his production; but the document embodying this principle contains some eighty pages, and even the most painstaking explanations of its authors have failed to make clear how prices for farm products will be raised thereby. The President has proposed it frankly as a promising experiment, but the failure of similar national and international schemes to control prices makes the success of the Farm Bill very dubious. The intentions of the inflation amendment, on the other hand, are clear, and the story of how it came about may have a bearing upon the uses to which it will be put when the President wields the power which it confers.

The Republican party, controlled as it is by the creditor element in the United States, has always been the party of "hard money." The Democrats, controlled by the debtor half of the electorate, have ever taken the view that a little elasticity now and then never hurt anybody. In 1896, when the currency of the United States was last in grave danger, William Jennings Bryan advocated the use of silver as backing for government notes in the ratio of sixteen units of silver to one of gold. On this issue—the cry of "16 to 1"—he was defeated by McKinley, and for thirty-seven years Bryan's losing slogan has been the synonym for absurdity. During the Presidential campaign last summer Republican speakers tried to frighten the country with warnings against tampering with the national credit. Mr. Roosevelt, then and in his inaugural address, declared for a "sound but adequate currency." Surely his first deflationary acts were "sound"—five billion dollars had been cut off the spending power of the nation. And surely his far-reaching plans for physical reconstruc-

tion were not alarming. But just at the end of April, with this program apparently working smoothly, he was brought sharply to book by a startling proposal advanced in the Senate. Senator Wheeler, of Montana, had the effrontery to propose a measure for the free coinage of silver, not on any new basis, nor as the result of any plan adapted to present circumstances, but purely upon the notorious Bryan ratio of 16–1. Senator Frazier offered an amendment authorizing the printing of fiat money. Senator Connelly proposed devaluation of the gold dollar. And when a poll on the silver amendment was finally taken, thirty-three Senators voted for it. The proposal was lost by ten votes; but the showing of inflationary strength was a shock, and the manner in which the Democratic Senators deserted their leader to vote for this measure indicated that Mr. Roosevelt had a crisis of the first magnitude on his hands.

It is now agreed that the President met the situation in the best possible way under the circumstances. Faced with the certainty that unless he took quick action he would shortly be confronted with a *fait accompli*, he called Senator Thomas, the leader of the inflationary group, to the White House. They agreed together on a new Bill which would not force inflation by mandatory provisions, but would put power in the President's hands, within his discretion, to use any or all means of achieving higher price levels which had been suggested in the Senate debate. These powers will shortly be at Roosevelt's command: the one question of the moment is, how does he intend to use them? Presumably he will first instruct the United States Treasury through the Federal Reserve Banks to buy $3,000,000,000 worth of government securities. This amount of cash lying idle in the banks as deposits will presumably be put to work in the shape of commercial credits. This is orthodox finance, but it didn't produce an upturn of business when President Hoover tried it, and may make little headway even with Roosevelt's magic

touch. The President is further authorized to issue
$3,000,000,000 in new paper money, backed by ne
gold, nor silver, nor bonds, but by the good faith o
Government. This is unorthodox finance, dangerou
se, and likely to lead to further such emissions of m
if Congress takes the bit in its teeth again. A col
soundness has been lent to the scheme by providing
4 per cent. of the total issue will be retired annuall
funds appropriated by Congress, and the President's adv
are today considering a new tax which is expecte
yield the required 4 per cent. in case he uses the p
granted to him. Finally he is authorized to cut the
content of the dollar down to 50 per cent. of its "pr
standard of weight and fineness." This violent p
bility might ease the burden of debtors, but its r
cussions would be severe. It is profoundly to be h
that nothing will be done under this authority, but
is going to be done, let's have it over quickly!

What are the prospects? It is clear that the Adm
tration is determined to raise prices. It is probable
the President will use his sweeping powers step by
and with moderation. He is forced to steer the
of State between whirlpools of uncontrolled infla
and the rocks of the collapse of his plan. He will have
hard-headed advice of Lewis Douglas, Director of
Budget, at his right hand; at his left he will have Me
Raymond Moley, Adolf Berle, Rexford Tugwell, Mor
Ezekiel and the other Academes who make up his "I
Trust." They present a strange phenomenon in W
ington, these professors, mostly from Columbia Univer
making plans, refashioning the railroads, reforming
banks, raising wheat prices and the like. But str
phenomenon or no, the President selected them, he
confidence in them, they are fertile in suggestions,
have studied their subject matter for many years,
oddly enough, they seem to be able to make up their mi
In these latter years nothing has been more notewo

than the utter failure of the bankers to take a leading part in affairs, unless it be the inability of the railroad heads to do more than scratch the surface of their problems. They have abdicated their natural seats of leadership, and they are scarcely entitled to be noticed when they shake their heads over the doings of the "Brain Trust."

III

AT some moment or other in the midst of this whirlwind of events the United States went off the gold standard. It would be hard to say when. Certain people will tell you, with blood in their eye, that it happened on April 19, when Mr. Ramsay MacDonald was on his way to the White House to work out plans for international co-operation. These people seem to think either that an unpardonable offence against a friendly nation was thereby committed, or that the United States, clever and callous, at last secured for itself a major diplomatic advantage. These are the same knowing folk who take you by the buttonhole to tell you that the secret use of the Sterling Equalization Fund is either a menace to the very life of the United States or that it is a triumphant weapon for Great Britain in some vast financial war. It is useful, perhaps, to recall that the United States first went off the gold standard, not on April 19, but on March 6, when every bank in the country was closed, and the holder of convertible currency was no longer able to convert it. After that date, no American was able to obtain gold for his private use, and only a negligible amount of it was specially licensed for export. The gold standard was first abandoned as a result of the bank panic; feeble efforts to return to it were made during the next succeeding weeks; the final decision to stay off it for an indefinite period was made in mid-April in the fear that unless such steps were taken a second bank panic would ensue. The pressure of this fear, the ominous social situation in Detroit and Cleveland, the threat of uncontrolled inflationary legislation in Congress,

all seemed to make it necessary to abandon the gold st
for the sake of being able to return to it at a less ti
time. If the action had been taken during Mr. MacD
visit, it would have provoked the deepest bittern
taken after his departure, it would have undermi
basis of any agreements which might have been r
In the view of the Administration it was best to act
not because the British Prime Minister was on his
the United States, but in spite of it.

This decision has had one ugly consequence. On
the holders of interest coupons attached to United
Government bonds and bonds of private corpo
presented them for payment. Almost all these cc
owing to a provision peculiar to American fixed oblig
were payable " in gold coin of the United States of A
of or equal to the standard of weight and fineness exi
on the date when the obligation was contracted. I
of the government prohibition against obtaining golc
impossible for corporations to meet their obligati
stipulated in the bond. But what is more seriou
Federal Government itself, holder of a huge store of
States gold coin, refused to make interest payments
ing to the letter of the contract. It must be evide
neither the Government nor private corporations
these obligations ever expected that payment of pr
and/or interest in gold would be exacted, for th
amount of such securities now outstanding is said to
$75,000,000,000, and there is scarcely one-sixth
amount of gold above the surface of the earth. Ne
less it is contended that the Government of the
States is not thereby excused from literal perfor
and that private obligors, if they really wish not to
their obligations, should pay in current funds, in a
to the face amount of the coupon, a certain num
dollars reckoned by the percentage of decline whi
dollar has suffered *vis-à-vis* a gold unit such as the
franc. When holders of coupons did ask for excess
on this theory, they were denied them. In France

England the United States Government is being accused of repudiation. This is a grave charge. It is no answer to reply "that the United States has not, in fact, done one single thing which foreign governments, almost without exception, have not done first and in greater degree." It is true that when francs decpreciated, the foreign owner of francs suffered a loss; that when Great Britain went off the gold standard many a foreign holder of sterling lost a considerable part of his purchasing power in terms of his own domestic currency. But the French Government did not contract to maintain the parity of the franc, nor did Great Britain engage herself to remain on the gold standard. How this obligation of the United States Government will be construed by appropriate authority remains to be seen. It will be time to characterize our "May Day" action when the Supreme Court of the United States, or an international tribunal, has decided how the express obligation must be met. While we await this opinion it will become clearer than ever before to many of us living in the United States that certain other nations, owing money here, cannot pay in gold the sums they have contracted to pay in that medium.

But the war debts, it is said, are not to be discussed at the Economic Conference to be held in London. Mr. MacDonald has said so, and his statement has not been qualified by Mr. Roosevelt. Surely an understanding must have been reached that the United States will permit the fifteenth of June to go by without insisting on payments then due. It is not conceivable that the Conference could have been advanced from the end of June to the twelfth of the month, with the approval of its Chairman, unless some such agreement exists. Otherwise, in the first three days of its existence, the assembly would expire from a surfeit of lampoons.

It remains to be seen what other results were accomplished, and are now being accomplished, by the preliminary conversations held in Washington at President Roosevelt's invitation. The atmosphere seems to have been good; per-

sonal relationships that have been established are boun be helpful in the long run. Optimistic communiqués l been issued, but they have little meat in them. No dc the most favorable view is this : that the principals agı on the need for a general increase in commodity prices upon certain practical steps to be taken, jointly, to b about that result in both the economic and the mone fields ; that a broad understanding was reached that debt payments should be alleviated and that tariff barı must be lowered. And lastly, it is possible that the President of the United States gave indication of a ı policy in international affairs—that of active collabora in the economic sphere on a scale not envisaged heretof

But if these most encouraging conclusions were inc reached, they have been considerably shaken by cer happenings since Messrs. MacDonald and Herriot these shores. Europe rages at the "repudiation" of gold obligations of the United States Government. I regret to prophesy, will be equally voluble over gigantic increase in the Exchange Equalization Fund w Parliament granted to Mr. Chamberlain today. These vicious obstacles to better understanding : both of t retard such microscopic progress as we are making. A us, as Sir Walter Layton has said, are prepared to will common end, but for the very life of us we cannot will means to that end.

There was a moment in the history of the Amer Continental Congress when the independent tender of the colonies in their dealings with each other threate to wreck the political independence of them all. Benja Franklin brought them to their senses. "If we don't l together," he said, "we shall hang separately." Per the Economic Conference could be opened with a disc animadversion to this idea, with a dash of prayer throwı For we have arrived at precisely that state in the af of the world.

The United States of America.

May 4, 1933.

NOTE

SINCE the above article was written President Roosevelt has sent a message to the 54 States taking part in the Disarmament and Economic Conferences. In it he points out the extent to which "the happiness and prosperity, the very lives, of the men, women and children who inhabit the whole world are bound up in the decisions," and the need of the decisions being come to quickly. He refers to the dangerous clash of confused purposes at the Disarmament Conference. "Our duty lies," he says, "in the direction of bringing practical results through concerted action based upon the greatest good of the greatest number . . . Petty obstacles must be swept away, petty aims forgotten." He sees two reasons for the reluctance to give up excessive armaments: the first, the desire, "disclosed or hidden," which, he believes, only affects a small minority, to enlarge their territories; the second, a fear of aggression—a fear for which he recognises the justification. "Modern weapons of offence are vastly stronger than modern weapons of defence." "The ultimate objective of the Disarmament Conference must," he adds, "be the complete elimination of all offensive weapons. The immediate objective is a substantial reduction of some of these weapons and the elimination of many others."

"There are," the President considers, "three steps to be agreed upon at the present discussions: (1) To take at once the first definite step towards this objective as broadly outlined in the MacDonald plan; (2) to agree upon the time and procedure for taking the following steps; (3) to agree, while the first and following steps are being taken, that no nation shall increase its existing armaments over and above the limitations of treaty obligations."

He proposes a fourth step: "That all nations of the world should enter into a solemn and definite pact of non-aggression; that they should solemnly reaffirm the obligations they have assumed to limit and reduce their armaments, and, provided that these obligations are faithfully executed by all the signatory Powers, individually agree that they will send no armed force of whatsoever nature across their frontiers." "Common sense," adds the President, "points out that if any strong nation refuses to join with genuine sincerity in these concerted efforts for political and economic peace, one in Geneva and the other in London, progress can be obstructed and ultimately blocked. In such an event the civilised world, seeking both forms of peace, will know where the responsibility for failure lies."—EDITOR.

NAZI GERMANY

I. Methods and Theories

THE so-called National Revolution in Germany throws a disquieting light upon the potentialities of propaganda in an age of rapid development. Propaganda, thanks to scientific improvements, provides an instrument capable of influencing, for good or evil, the lives of a teeming world population, just as easily as those of small populations used to be influenced by more primitive means in a simpler age.

The Hitler upheaval owes more to propaganda than any similar movement. The Bolsheviks had completed their revolution before they learnt the uses of propaganda. The Italian Fascists met with real opposition, and had to expose themselves to danger. But the Nazis had merely to create the appearance of a menace to secure the acquiescence or passivity, first of the aged President and the minority in power, and then of, say, half the electorate, for the purpose of ferocious measures which only panic caused by fear of an unprecedented national catastrophe would have been felt to justify in any less emotionally gullible country. The Nazis accomplished their object by propaganda, and it is a nice question whether we should recall with pride or with regret that it was we ourselves who taught them the trick. It was our own war propaganda that first showed them the effectiveness of such a weapon. They have always acknowledged their debt to us and, with characteristic thoroughness, they set themselves at an early stage to learn their lesson.

Their studies were destined to produce a genius. The Governments of the Weimar republic had, in their own efforts, to comply with accepted standards of accuracy and to take into account the existence of an intelligent, well-informed public opinion abroad. No such trammels impeded Dr. Goebbels, the present Minister for National

Enlightenment and Propaganda and the architect of the Nazi "Third Reich." His experiments were only upon his own countrymen, and he acted upon the old principle that one may as well be hanged for a sheep as a lamb. He was suppressed at times, but never for long. Restrictions were astonishingly elastic in the days of the old republic.

The National-Socialist movement was worked up by an unceasing campaign of what can only be compared with religious revivalism. The method was to play upon the feelings of a people inherently susceptible to mass suggestion, and rendered more subject to emotion by undernourishment, strain and other hardships during the war and the inflation. The Treaty of Versailles was the most valuable tool in the agitator's bag. To it was ascribed blame for a sense of undeserved national humiliation and undeserved social misfortune, the last attributable more especially to the reparations clauses. President Wilson's fourteen points, and the sanctimonious wrappings of the Peace Treaties, made it a simple enough matter to hypnotise crowds, vaguely conscious of grievances, into overlooking the hard fact that they had lost the war, and later that the whole world, not only Germany, was suffering from economic depression and passing through a social crisis. Whatever the faults of the Treaty—and they were great—they became magnified out of all proportion. Thousands listened with uncritical enthusiasm while Herr Hitler poured forth airy promises of a mystical national resurgence, and promised remedies for the social grievances of every one of his listeners. The effect was enhanced by brilliant stagecraft, and as the hysteria grew, the figure of the prophet stood out more and more luminously, and what he actually said mattered less and less. Last May Day was a good illustration of the method.

The Hitler legend once established, there was no difficulty in transforming the impersonal hatred of the Peace Treaties imposed by the foreigner into a venomous personal

animosity against those sections of the community at home which had to be dislodged before the Nazis could hope for power. It was easy to brand the supporters of the Weimar constitution as the accomplices of the oppressor. Had they not been forced to face facts and to make some attempt to fulfil their country's international obligations ? Anti-Semitism fell naturally into place in the programme. Democratic conditions under the republic gave free scope to ability, and the Jews—already to some extent encouraged by Wilhelm II—attained a prominence in the political, commercial and artistic world out of all proportion to their numbers. They thus became identified with " the system," as the republican regime was called.

There were scandals and corruption under the republic, as under most governments ; but they were exaggerated and distorted, and the average Hitlerite became firmly convinced that practically no one who had been officially connected with " the system " could possibly be honest. Pacifists the Nazis were taught to look upon as international in outlook and therefore disloyal to the cause of national regeneration. Communists, socialists and democrats alike were guilty of pacifism as well as " Marxism," and therefore doubly traitors. Jews, besides being profiteers and bloodsuckers, were mostly communists, socialists and democrats, and those of them who dominated literature, art or the stage were " intellectual Bolshevists," who had contaminated clean, solid German art with clever decadent foreign ideas. There was clearly some foundation for the demand for a purification of the national life. But licence here and there was hardly a reason for sweeping genius wholesale into the dustbin.

The Nazi appeal to the discontented was the more effective for being presented by the discontented. Many of those who gathered round Herr Hitler in the early days, and later became subordinate leaders, were formerly officers or non-commissioned officers whose occupation had gone

h the close, if not of the war, of the turbulent period free corps and "Black Reichswehr" activities. Many hem were soldiers of fortune both in type and temperant, whose record had been far from exemplary in those gular forces which accepted brutal hole-in-the-corner rder, in the name of patriotism, as "execution." These n, turned street corner orators, had not only the distent of their own class to work upon, but that of the nger generation, which, thanks to the economic depresı and the abolition of compulsory military service, was the most part unable to find anything to do. It is ıarkable that any idealism at all should have survived the ranks of the Brown army, whose instructors were their element ınflaming the minds of their youthful rers with theories of the systematic application of vio:e for vengeance sake, which they confused with the ues of patriotism and manliness, and with the traditions Frederick the Great and the War of Liberation against poleon.

'his summary of Nazi methods may be challenged as ng less than justice to the measure of sincerity which loubtedly underlies the movement. Yet both Herr ler and Dr. Goebbels, the first in a paragraph that has n cut out of later editions of his book, and the other in nadvertent revelation in a public address, have admitted, n their own experience, the necessity—for the good of people, of course—of exaggeration and misrepresentaı in the building up of a popular movement.

II. The Nazi-Nationalist Coalition

BY the summer of 1932, nearly 40 per cent. of the electorate had been carried; but Herr Hitler scorned coalin, and demanded all or nothing. - Yet an absolute jority seemed a long way off. The violence after the y elections, especially the disgusting murder of Potempa

in Silesia,* even caused a setback, and some two million votes were lost by the end of the year. The decline continued until chance and human weakness unexpectedly combined to bring Herr Hitler what he wanted. It cannot be too plainly stated that the Nazis first obtained power by an accident, and not because the majority of the electorate wanted them.

General von Schleicher, in his efforts to force the then Chancellor, Dr. Bruning to accelerate his pace, started in 1931 a system of "palace" intrigue which was to be his own undoing a couple of years later. The President, who in the summer of the following year was staying in East Prussia, and, as octogenarians are apt to do, becoming more and more susceptible to the influences of his early environment, was persuaded that the Chancellor was contemplating the introduction of a sort of "agrarian Bolshevism," because he had proposed that hopelessly insolvent large estates in eastern Germany should no longer be kept going by endless State subsidies, but left to the normal working of economic laws, which meant that they would in due course be sold and converted into small holdings, a result which was widely agreed to be desirable. Dr. Bruning, who could still rely upon a parliamentary majority to prevent the repeal of the measures he decreed, was trying to develop constitutionally a less clumsy form of parliamentarism than the one created at Weimar. He had, moreover, plans for bringing the Nazis into the government under safeguards. Early last summer, however, he was virtually dismissed by the President.

With him fell the last chance of saving parliamentary democracy. After his fall, the Junker-Nationalist group, a small minority, with Herr von Papen, who enjoyed the President's personal confidence, as Chancellor, took office. General von Schleicher had not, it would seem, meant things to go so far ; but he made the best of the situation

* For full particulars of the Potempa case see *The Times* of August 20, 22, and 23, and September 3, 1932.

and became Defence Minister, though he remained in the background, leaving to Herr von Papen the responsibility—the rope with which he could hang himself. This, in five months, Herr von Papen did, though not, as it turned out, beyond all possibility of revival. His government did not obtain the support of more than a tenth of the electorate in two successive Parliaments, and he refused to meet either of them. By giving the Nazis, however, a freedom of action which they abused, then by suppressing disturbances with a strong hand, and finally by snubbing Herr Hitler in the negotiations for a coalition, he checked the Nazi advance for the first time, and even forced it to retreat. But at the same time he antagonised Labour and drove many people who were not really Communists at heart into the Communist ranks. His isolated position finally became intolerable and the President, despite his unbroken personal trust in Herr von Papen, had to appoint General von Schleicher Chancellor.

The general's outlook was still much more akin to Dr. Bruning's than to von Papen's. As a soldier of the younger school he had a keen sense of the importance of the trade unions, upon whose members the munitions supply would, in the last resort, depend. He hoped, moreover, by way of the unions to link up with the Nazis and to elbow out Communism. The fact that he had taken the place of von Papen began indeed to check the increase in Communist numbers. But it was too late. Von Papen and the Junkers could not forgive him. Now that he was Chancellor, he found his predecessor, together with Colonel Oscar von Hindenburg, the President's son and A.D.C., in full possession of the President's ear, and himself, who had once shared it with them, left out in the cold. They overthrew him before he had a real chance, by the methods he had himself taught them, and for the very faults with which he had credited Dr. Brüning—hesitation and a failure to take dramatic action.

Partly from fear that the Army might rally to the general's aid—there was no lack of rumour—Herr von Papen, Herr Hugenberg, the Nationalist leader, and the Nazis stampeded themselves and the aged President into agreeing to a coalition of "national concentration," with Herr von Papen, who alone had the necessary influence to move the President, as the leading spirit. The Nationalists imagined that they could control their new Nazi allies (whom they had been fighting furiously only a few months before), and harness the "national" half of the National-Socialist spirit to a nationalistic, and perhaps even a monarchist, revival.

Dis aliter visum. Herr Gregor Strasser, the intermediary through whom General von Schleicher had hoped to link up trade unionism with the Nazis, and the most moderate and constructive of the Nazi subordinate leaders, had already been suppressed. Herr Hitler and his friends, probably not without reason, feared a trap. They preferred to make one more effort to rally the movement in the hope of securing undivided power, in spite of the decline of their influence. Fortune always favours the brave. Herr Hitler was, so to speak, in the act of walking away from the Wilhelmstrasse pondering over his plans when Herr von Papen unexpectedly called him back through the back door into the Presidential residence. Though still suspicious, he decided to take the risk when he saw that General von Schleicher had been eliminated, and that the Junkers and Nationalists were in a flutter. The proposed coalition after all offered him a chance of getting possession of the country without a fight if he played his cards well. He accepted. It was to be a test of cunning, and anyone less serenely self-confident than Herr von Papen would have hesitated before venturing to come to supper with the Nazis with such a very short spoon. As fanatically inspired, in his own way, as the Nazi leader himself with the conception of a national rebirth, and full of hope that he would be able to make use of the "national" side of

Nazism, he disregarded the risk of the "socialist," in some respects the almost Bolshevik, side getting out of hand. With the landowners and the industrialists, irredentism and hatred of international Labour were as ever the ruling motives.

A Nazi-Nationalist Government, with Herr Hitler as Chancellor, was formed on January 30, 1933, and Herr von Papen, now Vice-Chancellor and still the most influential adviser of Field Marshal von Hindenburg, completed his Prussian *coup** on constitutional pretexts which, in spite of their flimsy character, apparently satisfied the President. Captain Göring, the Nazi fire-eater, at the instance of Herr Hitler and despite warnings from his Nationalist colleagues, was appointed Deputy Commissioner of the Interior, nominally under Herr von Papen as Chief Commissioner for Prussia. It was then that the latter began at last to realise what, to use a colloqualism, he was up against. He had not only retained the chief position in Prussia for himself, but he had also to all appearance safeguarded the future of the Junker-Nationalist group by obtaining a promise that the Nazi element in the Reich Cabinet, then in a minority, would not be increased after the general election to more than half. Yet, it was all in vain. The Nationalist hold both in Prussia and in the Reich Cabinet was soon undermined. Captain Goring consulted Herr von Papen less and less about the reorganisation of the Prussian administrative services; some Nationalists, but far more Nazis, were appointed to executive posts and Captain Göring soon had the police under his own thumb. The revolution was gathering momentum, and it was to be not merely a "National" but a "National-Socialist" revolution.

The reign of terror began in earnest, in Prussia at any rate, several weeks before the general election. In previous years there had been provocation on both sides in the street

* Herr von Papen seized Prussia in July, 1932, on the ground that the Prussian Government could not keep order.

feuds. With the Nazis in power and the Brown Army a sort of privileged force, the provocation became one-sided. S.A. columns,* accompanied by police, made demonstrative marches through Communist districts. On one occasion —the very day that the Government's accession to power was being celebrated— a policeman with proletarian sympathies and a Nazi, not particularly popular among his comrades, were mysteriously shot. This provided the material for the flamboyant State funeral in Berlin which was designed to accentuate the officially encouraged fraternisation between the Nazis and the police. Elsewhere there were similar incidents and the Nazis exacted far-reaching vengeance. Police who attempted to check them were reprimanded and, as early as February 21, Captain Göring issued his notorious order to the police to make a ready use of their firearms in the campaign against "Marxism" (which, it had already been announced, would be conducted *with "brutality"*). *He instructed them to give every* support to the patriotic organisations, which meant primarily the brown-shirts. He had already on February 15 informed the provincial governors and chiefs of police confidentially that the S.A. and the Nationalist Stahlhelm were to be armed and used as auxiliary police. It was pretended that no more was contemplated at the moment than the enrolment of a few storm troopers and Stahlhelmers to help to keep order at provincial election meetings. But a few weeks later S.A. men (not only auxiliary police) were strutting about the streets everywhere with big revolvers in their belts, and sometimes long knives stuck in their top-boots.

This is a characteristic instance of the sort of misrepresentation upon which the whole operation of seizing the country was based. Ever since Herr von Papen's Prussian *coup*, official statements, assurances and denials had become steadily more ambiguous, until intelligent political circles had ceased to take them at anything like their face value.

* Nazi brown-shirt storm detachments.

But the ingenuous ambiguities of the Papen régime were child's play compared with what came later. And they were by no means unknown in the early days of the Nazi movement. At his trial after the abortive Munich *Putsch* of 1923 Herr Hitler, when asked whether he had not broken his word, admitted that he had done so "for the Fatherland." Herr Strasser had made a similar admission in a public trial, and declared that he would break his word again for the sake of the Party. Often, it must be admitted, the official assurances were so subtly worded that disregard of them might later be defended if anyone thought of challenging them. For instance, Bavaria was told again and again that there would be no Reich intervention so long as law and order were preserved. They were preserved, but when every other State in the country had been taken over on the pretext of disturbances, there was some ground for the claim that, owing to the possibly uncontrollable impatience of Bavarian Nazis, law and order might be endangered and intervention was therefore justified. There was always a pretext which, however flimsy to start with, became overwhelmingly convincing to the fanatical or simple minded, when it had been through Dr. Goebbels's propaganda machine.

Dr. Goebbels' kept pace with every advance. Most of the pioneer work was indeed accomplished by him, and later on, when his department became a Ministry, his propaganda became more and more indispensable as the lack of constructive thought among the National-Socialist leaders grew more and more apparent.

III. The Terror

THE general election took place on March 5. It was meant to give a semblance of popular confirmation to the minority government's dictatorship and to the relentless turn of the wheel by means of which, on one pretext or another, it was thrusting the Weimar republican régime

under. Both Nazis and Nationalists boasted that they intended to remain in power whatever the result; nevertheless, the Nazis at any rate wanted the reassurance of a majority. It might be awkward, they felt, if the President were to cause difficulties and leave no other course open to them but a *coup d'état* against himself, especially as they were by no means sure of the Army, of which he was the supreme head. The Nazis also wanted to underline again their numerical superiority over their Nationalist allies.

The administrative machinery, especially in States where it was under direct Nazi control, was made the utmost use of for the purposes of intimidation. Communist, Socialist and even Democrat and Catholic Centre newspapers were suspended and Opposition election meetings broken up on the slightest pretext. The daily incidents, in which real or apparent violence against, or obstruction of, uniformed Nazis was followed by disproportionate retribution, had a way of ending in the incapacitation of leading Opposition orators and organisers. But despite all this, and notwithstanding the strenuous oratorical campaign of Herr Hitler and his staff, the feeling persisted, even in government circles, that the Nazis and Nationalists together were hardly likely to obtain the coveted 51 per cent. of the votes. It is beyond question that in some quarters, with or without the full knowledge and approval of the leaders, an act of provocation on a striking scale was under consideration. Indications too serious to be disregarded pointed to the probability of a simulated attempt on Herr Hitler's life which would provoke a spontaneous or partly spontaneous outburst of fury among his followers, leading, it might be, to something in the nature of a massacre, in which not only the Jews but marked leaders of the Opposition would suffer. It was never quite clear whether the outbreak was intended to precede and influence the election, or to cover a *coup d'état* in case of defeat at the polls. Alarming reports found their way into the press of many foreign countries, pointed questions were asked in foreign parliaments, and the abhor-

rence with which, whatever the pretext, any such outbreak in a civilised country, disposing of large disciplined forces, would be regarded in the rest of the world was made plain. Owing perhaps to such warnings, the Nazi terror did not take the form of concentrated violence, though it might not be unreasonable to wonder whether in the long run the death roll will have been very much, or the accumulated suffering at all, less considerable under the systematic but attenuated reign of savagery which developed from that time and has continued ever since.

The sense of strange happenings was nevertheless in the air, and to many who had followed political developments closely it came as no great shock to see the central dome of the Reichstag glowing orange with seething flames on the Monday preceding the elections. The fire was unexpected, yet the mind was prepared for something at least as spectacular. That an act so senseless—politically so suicidal—should have been planned by leading Communists or Socialists, and carried out in such a way that there remained nothing for the police to find except an alleged Dutchman with a dubious communist past, who, though only half clothed, retained compromising papers, including a passport with the name spelt in the German and not the Dutch way, was found hard to accept even by many intelligent supporters of the "National Government." The alleged incendiary, van der Lubbe, was not allowed to be seen even by the official representatives of his alleged country; nor was there any sign of his being brought to trial two and a half months after the event.

Fantastic though the official story was, no direct evidence has become available in support of the theory, not unnaturally advanced by sceptics, that leading authorities, such as Captain Goring, were aware in advance of what was going to happen. But if it had been in their minds, they could not have exploited it more swiftly and effectively. At 2 a.m., some three hours after the fire had been got under control, a summary of the drastic measures which Captain

Göring was going to impose in Prussia was already being released to news agencies, though it was withdrawn temporarily after a few moments on the ground that alterations had still to be made in consultation with the Reich Government. Nevertheless, although a Reich decree for the protection of the State, suspending the constitutional guarantees of the person, was promulgated the next evening, the almost hysterical Prussian declaration indefinitely suspending, not only the Communist but the whole of the Socialist press in the State, on the ground that van der Lübbe had admitted his connection with the Socialists as well as with the Communists, was published on the same Tuesday morning. Yet, according to police statements, van der Lübbe himself, after an all-night examination, in which he obstinately denied having had any accomplices, had fallen into an exhausted sleep and was not questioned again until the afternoon. It was hard to understand how his alleged confession of Socialist associations (which was in any case admitted by the investigating authorities later to have been without foundation) could have been available before 2 o'clock in the morning, when Captain Göring's decision to suppress the Socialist press was let out.

To justify Captain Göring's measures the Reichstag fire episode was combined with "material" disclosing widespread plots for a Communist rising, alleged to have been seized by the police in "catacombs" (in reality extensive but not abnormal cellars) in the Communist headquarters, which had previously been searched repeatedly by the police. Official promises of ample publication of the "material" were not fulfilled as the weeks went by. Parts of the alleged brief extracts disclosed corresponded almost word for word with passages in well-known Bolshevist works long since published, including an outline of revolutionary methods written by Lenin at least a decade ago and obtainable in a paper edition for 1 m. 60. Nor, despite occasional discoveries of stolen explosives and the like, were the police able to find convincing evidence of the supposed prepara-

tions for a Communist outbreak timed, according to Captain Göring's statement, for that very Tuesday. In Germany, which is nearer to Russia than the Western Powers, and which still remembers Kurt Eisner, there is an ever-present fear of Communism. But the German Communist movement, though numerically strong—there were 90 Communist members in the last Reichstag—had never been dangerous, being absolutely destitute of leadership and initiative, and a revolt was the last thing it was likely to have in hand at this particular juncture, when the forces against it were exceptionally powerful and ruthless.

Nevertheless, the pretext for an accentuation of the existing Nazi terror was there, and the means had already been provided by the arming of the S.A., and by the previous orders which, in effect, rendered whatever they might do no longer of concern to the police. The Reich decree, providing for the arrest of all Communist deputies, was easily and rapidly extended—especially in Prussia—so as to rope in all persons in any way prominently associated with communism, the Social-Democrats, *i.e.* the moderate labour party, the democratic or liberal movement, and, above all, with pacifism. Those who were arrested by the regular police considered themselves lucky. The uniformed Nazis, often unaccompanied even by comrades who had been appointed auxiliary policemen, had their own lists of "suspects." Victims were knocked up, usually in the middle of the night, by armed groups who, if kept waiting, would often break in the door. If not maltreated on the spot, they were forced at the pistol's point to enter motor cars and driven to "Brown Houses," as group headquarters are often called, or, in outlying districts, to small beer houses used as Nazi rallying places. There prisoners were kept for several days, sometimes much longer, flogged with horse whips, sticks or steel rods, made to do physical drill, to spit upon their party symbols and abjure their principles, and in other ways physically tortured and mentally humiliated. Sometimes they died. In the early stages the

bodies, like those of victims upon whom direct vengeance had been taken, were found lying in the countryside, to become insoluble cases for police investigation. Later, they were sometimes disposed of through public mortuaries, where officials were terrorised into supporting official versions of accident or suicide.

Some of the more badly injured prisoners were delivered to hospitals and police infirmaries, where they either died, or *if they recovered, were discharged straight into custody.* Methods varied—there were cases in which men with mutilated faces and bodies were released, to crawl back to their homes broken in spirit and terrorised into silence by threats of dire retribution. Happier were those who, after a day or two in a Nazi cellar and a straightforward beating, were able, after medical attention or a spell in bed, to resume their ordinary lives. Releases, however, became rarer when it was found that there were still men who had the courage to tell of their experiences, or to address sworn statements to the Public Prosecutor. The usual fate of the prisoner after examination in a Nazi place of detention was to be handed over on a vague political charge to the regular police, who did not ask the date of his arrest or what might have happened in the interim. He would eventually find himself in one of the big concentration camps with thousands of other political prisoners.

Besides the physical suffering inflicted, very numerous instances in which individuals were deprived of their livelihood on account of their opinion or their race must be remembered—cruelty may take many forms.

This is the plain truth about the terror in Germany, which has continued along much the same lines up to the present day. The British public find it hard to understand that such things could happen in a civilised country. But these things have been happening in Germany, and the terror was at no time the work of ungovernable bands of revolutionary youth. It has been carried

out systematically and in cold blood from the beginning. The so-called revolution was accomplished without any fighting worthy of the name. Within a week of the elections even occasional hostile shots in working class districts had virtually ceased. Nowhere had there been organised resistance on any scale, and the main operation of seizing the power in one federal State after another was carried out without bloodshed on the constitutional pretext that the authorities in office were incapable of maintaining order, or unwilling to apply with sufficient rigour the decrees for the suppression of Marxism.

It is doubtless because this disagreeable form of revengeful bullying was so patently unnecessary that such pains have been taken to deny it and to suppress evidence. The lid has been so tightly screwed down on the truth that nothing unauthorised can be published in the German press. The Government has cleverly avoided formally expelling foreign journalists, but pressure is exerted on them in various ways. The publication of accounts of any kind of maltreatment, if not supported by full evidence, can, under the elastic laws now prevailing, be made the basis of a charge before a special court, of "spreading atrocity propaganda injurious to the State," or something to that effect, against both writer and informant, and six months to a year's imprisonment may result. Moreover, any German victim even suspected of having divulged his experiences must expect immediate rearrest by the S.A. and worse treatment than before, so that the mention of names, or a recognisable description of an individual case, is almost out of the question. Skilful manœuvres have secured the unostentatious withdrawal of several foreign correspondents from the country.

When, in the case of persons too prominent for their fate to be hushed up, it is announced that, after their arrest, they have had to be taken to hospital "on account of illness," experience fully justifies the interpretation, in the absence of further details, that they have been seriously mishandled

after their arrest. Such an announcement was made after the raids on the Trades Union offices on May 2, in which the S.A. were authorised to take part, a striking instance of the slight value to be placed on apparently reassuring regulations like the one which had just officially withdrawn from the S.A. the right to make arrests. The Terror, in its later stages, may have received rather more sanction from the law in the form of decrees since the Reichstag gave Herr Hitler carte blanche, but there has been no sign, in spite of the frequent assurances given by Ministers, of any serious attempt being made to stop it. The prevailing spirit was revealed by Captain Göring when, in a savage speech, he recalled the fact that their followers had been promised " a settlement of accounts " and declared that the promise was being kept. This, and his assumption of personal responsibility for every bullet fired by those under his control, clearly set the pace for the average Nazi, and his statements were not by any means ousted by Herr Hitler's mild manifestoes in March, which may be fairly summarised as amounting to an assurance that practically nothing had happened; that in any case it was mostly the work of *agents provocateurs* ; and that the S.A. must desist from such "individual actions." The extent to which further legislation may be expected to improve matters can be judged by the fact that one of the most notorious of the Nazi places of detention in Berlin, the one in the General Papestrasse, has from the first been the headquarters of an auxiliary police unit and as such presumably a legal police station; yet the methods employed there have not differed from those of the S.A. quarters in the Hedemannstrasse and elsewhere. Prisoners dealt with there have been given formal discharge certificates bearing serial numbers running into hundreds signed on behalf of S.A. " auxiliary " or " field police."

IV. The Jewish Boycott

ɅONG the early victims of the Terror were many ews, especially "intellectuals," lawyers and doctors, ıey were at that time involved, not primarily as Jews, ɜcause of their real or alleged association with the unist, socialist or pacifist movements. It is quite .ake to imagine that the persecution of the Jews as ıas been the chief aim of the Terror. This false ısion abroad is due to the stupendous publicity given notorious boycott of April 1 by the propaganda min- By that time the coveted 52 per cent. of the votes had ıbtained by the Nazis and Nationalists together at the l election, if not by direct intimidation or manipu- at the polls, largely as a result of the terror in Prussia raising the communist bogy among the simple peasants ɾaria, who still had memories of the brief Soviet : after the war. The whole country was in the l Government's hands, the solemn National Pageant en staged at Potsdam on March 21, and the Govern- ıad obtained a free hand for four years from a trun- Reichstag. There were no constructive measures in and in accordance with the plans decided upon, it e business of Dr. Goebbels's propaganda department ɔvide fresh distraction for the populace. Ugly ; were getting abroad about the Terror. A ferocious ːmitism had been preached by Herr Hitler and his ıants for years.

ɾilliant scheme was hit upon for killing several birds ɔne stone. The survivors of the German press— ıfter the elimination of the communist and nearly ındred socialist newspapers, rendered almost entirely vient—made much of certain atrocity reports pub- by irresponsible papers in the United States and, it ıguely alleged, in Great Britain. Such reports were

also said to have been spread by Jewish organisations abroad. They told of hands chopped off, eyes put out, Jewesses raped and similar atrocities reminiscent of the war-time allegations against the Germans in Belgium. They cannot have been very widespread, as they did not appear in responsible newspapers; the Nazi Terror had taken disagreeable forms, as has been made clear, but there had been no authenticated evidence of these particular types of outrage. The impression was, however, given that the whole foreign press, especially newspapers under Jewish control, was conducting an exaggerated atrocity campaign, and the German public was worked up into an anti-Semitic fury for which an officially organised boycott of Jewish shops was provided as an outlet. Anti-German boycotts of small extent organised by Jewish communities abroad provided fuel for the flames. Once the Hitlerites—and others who did not require much stimulation—had been aroused, it was a simple matter, despite the nominal calling off of the boycott after the first day, to set relentlessly in motion the whole programme for the removal of Jews from public offices, from the professions and from art, business, and indeed from every kind of employment. At the same time the German anti-atrocity propaganda succeeded to some extent—by contrasting exaggerations with the few "excesses inevitable in time of revolution," which were all that the Government would officially admit—in drawing the attention of foreign opinion away from the genuine Terror.

V. Future Prospects

THE persecution of the Jews has since proceeded steadily, together with the establishment of Nazi control over all branches of intellectual life, industry, commerce and organised labour, the preliminary steps to the absorption of the Stahlhelm and the relegation of the Nationalist-Junker group to a subordinate position in the Administration.

one time the hopes of those who were dissatisfied Germany's new masters—the hopes even of the list workers—were centred in the belief *that* this would not tamely allow itself to be brushed aside might, with the support of the Stahlhelm and the r, make a bold bid for a Hohenzollern restoration—ing for a change from the present order of things. Marshal von Hindenburg, it was believed, could not, really knew what was going on, fully approve. And ugh he has probably to a large extent been hood-ed, like so many of his countrymen since the suppression e newspapers likely to enlighten them, there have been indications that the venerable President may have more of what was happening than his actions would est, and that he is remaining at his post with a purpose. ibly there may yet be a call for his services. It be, too, that the Army, which its successive com-lers have sought to protect from political influence, is biding its time, though here again it may be that its ion means that it has already been too much affected he Nazi spirit to move. At any rate, opportunities restoration, such as the emotional occasion of the lam ceremony, slipped by without any action being l.

will no doubt be asked, what is to be the fate of Dr. ing's party, the *Zentrum*, which has always played such portant part in German politics? No answer can be to this question except that the Centre party has hither-eathered the storm by bowing before it, in the hope no t of some day influencing things for the better, by ining concessions in return for the loan of its experience, e same time retaining cohesion so as to be able, should sion offer, to take the lead. It will, at any rate, have advantage of first-rate leadership. Dr. Brüning, the outstanding figure from the former régime, has just me its chief.

ie dominant fact at the moment is that all along the

line the Nazi revolutionaries have triumphed. Everything else is surmise. Herr Hitler's strongest card is undoubtedly the appeal of his movement for national resurgence. The very title " National " gives it a certain sanctity, and Nazi propaganda has cleverly made the most of this advantage. It is, of course, this feature in the Revolution, and not its half-baked social and economic theories, that chiefly explains its easy capture of thousands of *bourgeois* supporters, and the acquiescence and docility of thousands more. But far the largest element in the party has been neither the *bourgeois* nor the proletarian, but the petty shopkeeper and the small farmer.

This " National " fervour, however, requires incessant nourishment, and it gets it in the form, not only of parades and processions, but also of stirring irredentist speeches and similar appeals. To satisfy the mood that has been induced, the new Germany of the National Revolution has been promised, directly or by implication, the recovery of most, if not all, of what was taken away by the Treaty of Versailles, including full military sovereignty; and dreams of further expansion are not discouraged. No secret is made of Germany's intention to rearm as rapidly as she can towards whatever level may be decided upon by the other great Powers, whether it means going up or down. The Brownshirts are taught to expect war, and kept keyed up to the pitch of being ready to die for the Fatherland. Until, however, Germany is ready to fight, her foreign policy is bound to be dominated by the necessity of avoiding serious embroilment, so that, in all probability, for several years the rest of the world will have a breathing space in which to decide upon their policy.

Abroad, where it has been found difficult to grasp the ruthless destructive character of the Nazi Revolution and its entire lack hitherto of constructive statesmanship, a belief has persisted that there must be something sound behind the movement to justify it, and there has been much talk of its " idealism." But what is this idealism ?

One attractive feature in the Nazi's creed* is certainly the ambition to break down class barriers, the opposite of the Bolshevik's class warfare. There have also been signs that they may tackle the thorny problem of the big uneconomic estates in the east, and make room for small holdings, thereby weakening the historic power of the Junker. If so, they will have earned one title at all events to gratitude. The unification of Germany may prove to be another.

But, when all is said, their ideas are so vague that, with every opportunity, they have been unable in more than three months to present any better constructive suggestion than conscription ; labour conscription, apparently to be extended to military training, was the sum total of Herr Hitler's May Day exposition of his first year's programme. Dissatisfied with the capitalist system in its present shape, they dream of a return to something like the mediæval guild idea, but the problems of revolutionising modern industrialism in this sense are easier to discuss than to settle, and they are still, to all appearances, intoxicated with the simplicity of destroying or prohibiting everything they object to. They have certainly been courting economic trouble. They have, suddenly and to a dangerous degree, replaced with their own untrained supporters experienced men in the civil service, in business, in scientific research and in the academic world. But all warnings are met with a light-hearted assertion of their readiness, if need be, to impose on the country a lower standard of living in order to have a self-sufficing Germany moulded after their own desires. Economic collapse may yet put an end to the dictatorship, though recent experience has shown that countries which, by all economic right, ought to be dead, continue to exist.

Apart from the danger of economic collapse, there seems to be nothing to prevent the Nazi dictatorship from lasting for anything up to, say, ten years, though that will obviously

* For a further reference to the idealistic side of Naziism and Fascism see page 487 *et seq.*

depend upon their being able to commandeer constr talent. It is quite possible, however, that ceaseless] ganda, combined with intimidation and economic pre may put such talent at their disposal.

There is, however, another consideration. I elements, though thoroughly cowed for the pr have been given unforgettable motives for the perpet of a smouldering hatred. Apart from the consid sections of the population which have never hear truth or been obliged by material considerations to t deaf ear to it, it may be roughly calculated that some cent. of the nation must have suffered or been indi affected by the Terror, and therefore be hostile tl inarticulate.* The existence underground of a pers Opposition ready to take vengeance at any mome weakness is a factor that cannot be ignored, even tl millions of workers dutifully waved swastika flag "National Labour Day." To have aroused the antag of the Socialist skilled workman, upon whom so depends, may yet prove to have been the fatal mista

Berlin.
May 1933.

* A striking feature of the March general election was that althou Communists, against whom the Terror was in the first instance directed, lost about a million out of six million votes, the more m anti-Nazi parties, *e.g.*, the Socialists, the Democrats, and the (practically held their ground. The Socialists only lost 75,000 vo of 7,251,000 votes. The Centre party, which polled 4,423,161 v against 4,230,644 in November, actually gained 3 seats. (See *The* March 7, 1933.)

WORLD DEBTS AND THE ECONOMIC CONFERENCE

WE know from history that communities can become overburdened with debt to an extent which cripples their economic machinery, destroys their energy and lessens both their production and their consumption of goods. It is not open to doubt that such an overweight of debt afflicts a great part of the world at the present time.

The condition of over-indebtedness can be either internal or external—national or international. It exists internally when what are called the fixed charges of a nation come to absorb more than a reasonable proportion of the national income. These fixed charges consist in the first place of interest on all debts, public and private; and for practical purposes include all taxes as well, for in modern democratic communities it is rarely possible to reduce taxation by any really large amount. The national income is reckoned by the total value of goods and services produced by the nation each year. If taxes and interest absorb an unreasonable proportion of this value, then commercial and business enterprise becomes unprofitable. As the motive of profit is the driving force of production, production stagnates and the supply of goods is diminished. It might be supposed that this would produce a rise in prices and so cure the evil. So it might if effective demand remained the same. But the stagnation of business lessens the demand for, as well as the supply of, goods—and in practice the demand often falls off even faster than the supply. So the ultimate result is a lowering of the standard of living for everyone except the comparatively small class of those who enjoy fixed incomes in terms of money. Their position is always relatively, and often absolutely, improved. Carried to the extreme you would get a situation where the whole annual production of the nation in goods and services went to the Government—which can always help itself—and

to the creditor class, after deducting a bare subsistence for the rest of the people.

The ordinary cause of internal over-indebtedness is a period of inflation followed by one of deflation. During the inflationary period prices rise, most people are optimists and spend freely. Production is profitable and is speeded up. Public bodies, corporations and individuals borrow freely; for providing public services and amenities; for increasing the plant and equipment of production; for furnishing themselves with articles of use and enjoyment which they think they can afford. All these things are actually produced from day to day and neither their production nor their use logically implies any mortgaging of the future. But in effect it does involve that. For the people who use them are not the same as those who produce them and the spenders in one form or other give a mortgage to the non-spenders. There is a great increase in the volume of debt. Then deflation comes, by accident or design. Prices fall; and the borrower finds that his obligation, being stated in terms of money, has become a far greater charge than it was when he contracted it. A simple instance is that of the farmer in Canada or the United States who borrowed money four or five years ago to buy land or machinery and who finds that, whereas at the time he borrowed he had to set aside 400 bushels out of his crop to pay the interest on his mortgage, he now has to set aside 1,200 bushels for the same purpose.

II

THE United States of America is perhaps the most striking example of internal over-indebtedness at the present time. Her taxation, plus her fixed charges in the way of interest on internal private debts, is calculated to amount in terms of money to nearly 20 billion dollars a year. Four years ago her national income was reckoned at 90 billion dollars a year. To-day, owing to the deflation, and the consequent fall in prices and restriction of produc-

it is reckoned at less than half that figure. The nal debt charges and taxes of the country which used ısorb less than a quarter of the national income now 'b nearly half.

ıe internal position of Great Britain is not so bad as -especially since Great Britain checked the process of :ion by going off the gold standard in 1931. But it is enough. Those European countries which were ;erents, and which swelled the volume of their public private debts in the war and reconstruction period, without exception wiped out the greater part of their ıal indebtedness by a drastic process of inflation— ised subsequently by the devaluation of their cur- :s. For them accordingly the internal debt burden a pressing problem at the present time. The neutral ries have for the most part not devalued their cur- :s, but then neither did they expand their internal ıtedness as the others did.

· now turn to international indebtedness. Here the on is different. The United States instead of being : worst is in the best position, having no foreign debts ıeing herself a great foreign creditor. Great Britain 'rance are in the same position except for the war they owe to the United States. Germany has wed freely since the war; and foreign indebtedness important factor in her economic position. This :s also, though to a less extent, to some of the smaller ıean countries. But it applies most of all to the led "new countries," *e.g.*, South America and British nions, such as Canada and Australia. These com- :ies both before the war and after have borrowed sums, both on public and private account, mainly Great Britain and the United States. With prices eir present level they are finding it increasingly ılt to meet their foreign debt charges by the export ıduce. To take a simple example, four years ago the of Canada's wheat exports sufficed to cover the whole

of her foreign debt charge and left a substantial surplus to help to pay for her imports. To-day her wheat exports do not suffice to meet half of her foreign debt charge.

III

WHEN the burden of internal debt has grown too heavy in proportion to the national income, the balance can only be restored by diminishing the money value of the debt charge or increasing the money value of the income. In practice this generally means the alternatives of widespread bankruptcy or general inflation, *i.e.*, the raising of commodity prices by monetary measures. For to restrict production, even if it raises prices (which it does not necessarily do, for the reasons already given) will not increase the total national income, which is a multiple of the volume of production by prices, and to raise prices while maintaining or increasing the volume of production is only possible by monetary inflation.

It may be said that neither alternative is necessary because debt charges can be brought down gradually by money becoming "cheap" in the technical sense, which leads to a fall in interest rates. But interest rates are for the most part fixed for a period of years. They can sometimes be brought down by a powerful debtor—the conversion of part of the British debt is a striking example. But the process is neither generally applicable nor rapid. It may suffice in a situation where the balance between debtor and creditor has only become slightly disturbed, but it will not suffice where the maladjustment is serious. In such cases voluntary adjustment has to be supplemented by involuntary adjustment, *i.e.*, by repudiation or bankruptcy on a wide scale It is almost certain, for example, that if the money value of the national income of the United States remains at its present figure or sinks lower there will exist before long a widely spread condition of bankruptcy in that country.

Just as internal debt charges must be met out of the sur-

of national income, after providing for the subsistence é rest of the people excluding the creditor class, so national debt charges must be met out of the surplus ternational trade after providing for necessary exges of goods. A good deal of international trade sts of these necessary exchanges, *i.e.*, those in which country obtains from another what it cannot produce self. Thus Great Britain, the United States and all pean countries must import rubber, coffee and tropical uce generally, while most tropical countries must rt a good many classes of manufactured goods, or do out them.

ien there is another large slice of international trade h is taken up by exchanges which are not so absolutely ssary as in the instances quoted above but may be l semi-necessary, *i.e.*, those in which one country gets another what it can only produce for itself at a great lvantage. For instance, it is conceivable that a try like Great Britain or Belgium could do without rted foodstuffs, and that a country like the Argentine outh Africa could do without foreign manufactured s. But it would only be by sacrificing all economic iples and producing painfully and dearly what could ot much more easily and cheaply by exchange.

iese necessary and semi-necessary exchanges of goods el out with one another. But there must be a surplus ternational trade over and above these if international payments are to be made: that is to say, the debtor have a surplus out of his exports which will meet his charges after paying for his imports.

IV

WHAT is the volume of international debt charges at the present time? There are no complete stics available but an estimate can be made. To take t Britain first; her overseas investments are valued l–4 billion pounds. Rather more than half of this

consists of fixed interest bearing securities. The British claim on the rest of the world in the way of annual debt interest on long term loans is estimated at 102¾ million pounds for 1932. This is after writing off claims in respect of such investments as Russian and Mexican loans.

Great Britain's total receipts in respect of her foreign investments of course largely exceed this figure, even at present, but the balance is made up of dividends on share capital and so on which are not fixed charges, but vary with earnings.

The investments of the United States abroad are stated to reach a figure of 15 billion dollars claiming a return of 900 million dollars annually. The available statistics do not divide this into loan and share capital, but it is estimated that rather more than two-thirds of the claim represents fixed interest on debt. This does not include war debts owing to the United States.

The claim of other creditor countries such as France, Holland, Belgium, Switzerland, etc., is difficult to estimate but probably does not in the aggregate amount to more than half of the British claim. Neglecting for the moment the difference in value caused by the depreciation of the pound sterling, and omitting war debts, we therefore arrive at an estimate of the world's total international debt charge as something between 1,200 and 1,500 million dollars a year. It must be remembered that in addition to this there is a very large claim of Great Britain and the United States for dividends on share capital and other forms of foreign investment apart from actual loans. This might reach another 600 to 800 million dollars a year. While it is not a fixed charge, and in fact varies considerably, it is none the less, so long as any part of it continues to be paid, a charge to that extent against the surplus of international trade.

If we compare the position to-day with that of 1913, when the United States had not begun to be a creditor nation at all, we shall be safe in saying that the total money

volume of international debt charges has approximately doubled. There is no corresponding increase in the volume of international trade as it stands to-day. In 1928 and 1929 the volume of international trade, reckoned in terms of money value, was nearly 70 per cent. higher than it was in 1913. But in 1930 it was only about 30 per cent. higher; in 1931 it sank below the 1913 figure by about 4 per cent.; and 1932, as far as the figures are available, shows a further shrinkage of about 25 per cent. as compared with 1931. In other words a volume of international trade which in terms of money is 30 per cent. less than it was in 1913 is called on to supply a surplus applicable to international debt charges of double as much as was required in 1913.

V

IN the above figures no account has been taken of reparation or war debt charges. In this matter the position after the Young settlement was, roughly speaking, as follows. Germany had to find something like 400 million dollars a year; and most of this went ultimately to France and the United States. By the Lausanne settlement Germany's obligation was practically wiped out. Assuming that the latter settlement holds and that, as a consequence, Great Britain's European debtors also cease to pay, we are left with the claim of the United States against Great Britain, France and the other Allied States. This amounts in round figures to 250 million dollars a year. It will be seen that it does not constitute more than a fraction—say, one-sixth at most—of the world's total international indebtedness. While its reduction or complete cancellation would be a great relief to the debtor nations concerned—just as the abolition of reparation payments was a great relief to Germany—it would by no means remove the general problem of international indebtedness nor relieve the difficulties of other debtor nations and particularly of the "new countries."

But there is a special reason why war debts (and repara-

tions) have hitherto assumed the first place in the discussion of the world's debt burdens. This is the only piece of international debt which can be dealt with directly by governments. The governments of Great Britain and France can say to Germany: "We will reduce or abolish your reparation debts." The Government of the United States can say to France or Great Britain: "We will reduce or cancel your payments on account of war debts." But the Government of Great Britain cannot say to Australia or Canada, nor can the Government of the United States say to the South American countries: "We will reduce or cancel the payments you have to make on account of your borrowings from our country." For those borrowings were made from private investors and the governments of the lending countries have no power either to reduce the principal of the debt or to accept a lower rate of interest. If the creditor were any single body the debtor might approach it and say—"We cannot pay all, but we can pay so much and we will do so if you will waive the rest of your claim." And so a composition might be made by agreement. But the creditor being thousands of scattered bondholders, there is no one to approach. The debtor, whether it be a government, a municipality or a corporation, cannot negotiate privately. It can only call its creditors together, which is a public admission of bankruptcy; and if it is pushed to that it would as soon stop paying altogether.

This method of reduction by negotiation—without an admission of bankruptcy—has in fact been employed all along in the case of war debts and reparations, both by Germany towards the Allies and by the Allies towards the United States. It is still being employed in the latter case. In the former it has reached its limit for there is hardly anything left to reduce. But it is not applicable to the other five-sixths of international indebtedness for the reasons given.

VI

'E have seen that when internal debt becomes too heavy to be borne the only way of restoring the ce is by increasing the national income stated in of money or by cancelling the whole or a considerable of the debt through the method of bankruptcy. ırly, in the case of international debt, when the burden ıes too heavy in comparison to the surplus of interıal trade which is available to carry it, there are only ays out. One is a general failure to pay on the part btors—which is parallel to bankruptcy in the case of ıal debt—the other is to increase the value of interıal trade in terms of money. This again can be ed by increasing the volume of goods which are dealt in international trade or their price or both. An ıse of volume would no doubt follow on a removal or ıt lowering of tariff barriers on the part of creditor ries. But this would cause such internal dislocation ticularly in the United States and France—*that it* in the least likely to take place to anything like the t required. An increase of prices could be brought by international inflation or even by inflation on the of the creditor countries. Thus the departure of . Britain from the gold standard has diminished the n of her foreign debtors by about one-third as comwith what it would have been if the pound had ned at par. There is a third method of adjusting the ce which is familiar, namely, that of fresh foreign ıg. The effect of this is to swell for the time being olume of international trade. If the United States let us say to Chile, 100 million dollars, in effect she ts from Chile a number of printed pieces of paper , for the purpose of balancing foreign trade, are ned, not at their value as paper which is negligible, t 100 million dollars. The imports of the United s and the exports of Chile are each increased by that

figure. But this is obviously only a temporary solution. You cannot decrease the burden of debt simply by more borrowing, if you stop there. You may get out of an immediate difficulty that way, but you must at the same time take steps to increase your means of payment in future. And even as a temporary solution it is to be feared that fresh foreign loans are out of the question at the present time, except to the limited extent to which they can be made by one government to another. Neither the credit nor the prospects of the borrowers are good enough to tempt the private investor.

VII

THE Economic Conference will no doubt consider the problem of international indebtedness. The other problem of internal indebtedness will hardly come within its scope. Each country will have to settle that for itself. Nevertheless, the way in which it is settled may vitally affect the deliberations of the Conference.* If, for instance, the United States, before the Conference takes place, should decide on a policy of internal inflation—to meet her own internal over-indebtedness—with the result, let us say, of doubling the dollar price of commodities, the difficulties of the international debt problem will be much lessened if not altogether removed. For the debtors whose obligations are expressed in terms of dollars would be relieved of one half of their burden. And as sterling would undoubtedly follow suit—for Great Britain could not afford to see the pound at a premium over the dollar—the real burden of all debts expressed in sterling would be similarly reduced. And most international debts are expressed either in dollars or in sterling.

But let us suppose that this does not happen and that the United States continues to pursue a deflationary policy up

* This article was written before the United States had renounced the gold standard—presumably as a preliminary to internal inflation. If she carries on with that policy the position will be altered, as pointed out in the following paragraphs.

to the time of the Conference. How then will the Conference deal with the matter of international indebtedness? It seems probable that it will pass a series of resolutions in favour of a general lowering of tariffs. For the industrial and labour interests, which generally speaking are opposed to this, will not have much to say at a conference consisting mainly of politicians advised by bankers. If these resolutions are carried into effect, the result will doubtless be an improvement in the volume of international trade, and the international debt situation will be eased to that extent. But will the resolutions be carried out? That seems less probable, when we consider the opposition of both industrial and agricultural populations, which will be aroused by any attempt to reduce the protection they now have. Still, something may be effected in this direction, even if it is no more than the setting up of a tendency to negotiate trade treaties for the purpose of admitting foreign products instead of for the purpose of shutting them out.

Secondly, it is possible that the Conference might recommend some measure of concerted international inflation with the object of raising commodity prices all over the world. This would relieve international indebtedness. But while this is possible it is not probable. Up to the present the indications are that the deflationists will control the Conference. France is certainly on their side. She has inflated on her own account and thus settled her own problem of internal indebtedness. She holds few foreign long term bonds and is not worried by the prospect of general default on these. On the other hand she is a large holder of gold and short term money—on which there is the least risk of default. Her interests therefore are almost wholly on the creditor side, and she is free from the anxiety which the bondholding countries must feel about the solvency of their debtors, and which might induce them to consider measures of general relief. Countries like Holland and Switzerland will probably follow her lead.

The deflationists have also managed to sway the financial

policy of the United States up to the time of writing this article. Their sway now appears to be threatened, but it is not yet overthrown. If they retain it until the Conference they will shape the line taken there by America. Of course the position will be quite different if, before the Conference meets, the United States has already turned to inflation on her own account. But in that case, as pointed out above, the problem of international debt will be of much less importance.

As regards Great Britain, while the deflationists may not be strong enough to impose their own policy, they are strong enough to prevent any decided action towards inflation and this country therefore is not likely to take any initiative in the matter one way or the other.

But, it will be said, if the Conference is not likely to take any action towards a general lift of commodity prices, nor yet any action which will result in the lowering to an important extent of the tariff barriers against international trade, then it will have done nothing at all towards solving this particular problem of the excessive burden of international debts. There is, however, one other thing which the Conference might do which would be helpful in the existing situation. That is, if it should point out to international bondholders and creditors in general, that with the present price levels there is no likelihood that their debtors will be able to pay in full, and that it is bad policy to go on piling up interest and renewal charges which will end by creating a situation where the debtor will lose hope and refuse to pay at all, since he may as well be hanged for a sheep as a lamb. The Conference might therefore suggest the setting up or even itself set up a semi-judiciary body to which debtor governments and municipalities and perhaps even private corporations (though this is more doubtful) could apply for a revision of their foreign long term liabilities, and to which they could make an offer of composition. If the revising body approved this offer it might be submitted by them to a meeting of the bondholders con-

cerned; and if accepted by a majority it would be understood that the debtor governments were free to enforce it by local legislation without any diplomatic protest and without it being considered any reflection on their credit.

Assuming that nothing else could be done towards lightening the burden, the establishment of such machinery would at least mitigate the difficulties of the situation. For it would create a means, which does not exist at present, whereby debtors unable to pay in full would have the opportunity of making a composition with their creditors and escaping the stigma and loss of credit which attends on a mere failure or refusal to meet their obligations.

THE RECEPTION OF THE INDIAN WHITE PAPER

THE Indian White Paper has been so fully discussed in the press that it is unnecessary to describe it in detail in an article appearing more than three months after its publication. Briefly it provides that the new constitution shall be based on the three principles of federation, responsibility and safeguards, which emerged from the first Round Table Conference. The federation, subject to parliamentary authority, is to come into being when 50 per cent. of the more important States have joined the federation. There is to be full autonomy, including control of "law and order," in the provinces, and a responsible ministry at the federal centre having control of federal subjects, except the army and foreign affairs, for which, together with the necessary financial supplies, the Governor-General is to be responsible. The safeguards, in addition to the reservation of the army and foreign affairs, are to consist in giving to the Governor-General and, in lesser degree, to the Governors of provinces, a "special responsibility" for "preventing a grave menace to the peace or tranquillity of India," for "safeguarding the financial stability and credit of the federation," for "safeguarding the legitimate interests of the minorities," and securing the rights and legitimate interests of the higher civil service, and for "the prevention of commercial discrimination." When, in the opinion of the Governor-General or the Governor, a course of policy is being pursued by his Ministers which challenges one of these special responsibilities, he has the constitutional right and duty of intervening and of no longer acting on the advice of his Ministers, and in the last resort, if agreement is impracticable, he may act on his own responsibility so far as is necessary to discharge his special duties.

Such are the Government's proposals for the government of India during the next stage in working out the

Declaration of 1917. In the sections that follow the reception of these proposals in Great Britain and in India is described.

I. The Reaction in Great Britain

JUDGED merely by the figures of the division lobby the Indian White Paper had an easy passage through Parliament. In the House of Commons it was committed to the Joint Select Committee for further examination after a three days' debate by a vote of 449 to 43. But it is well to recall that in actual fact that was all that did happen. That vote cannot be taken as Parliament's definite approval. Speaker after speaker reiterated the view that the appointment of the Joint Select Committee did not necessarily involve approval of the White Paper. In this they were on sure ground for the Government has always insisted that the White Paper scheme was not a cut and dried one but that alternative proposals were open for the consideration of the Select Committee.

But even this restricted issue gave an important reflection of the division of opinion. The official Opposition was frankly of the opinion that the proposals did not go far enough. The policy of the Labour party, as defined by Mr. Lansbury, was the admission of India at the earliest possible moment, and by her own consent, as an equal partner in the British Commonwealth of Nations. They were opposed to the appointment of a Select Committee to carry out a policy that had not, in their view, the support of the people of India, and they went into the lobby against it. The Liberals, on the other hand, whom angry Conservatives sometimes call "the other wing of the Opposition," were on this occasion the strongest supporters that the Government possessed. Such criticisms as Sir Herbert Samuel directed against the policy of the Government crystallised round the fear that it might alter it at the dictation of its own supporters. He earnestly hoped that the

Select Committee would not recommend any increase safeguards or any cutting down of the degree of liber had been granted. In this attitude Sir Herbert S had a united party behind him.

But fifty Socialists have as little chance of wrecki Indian policy as have fifty Liberals of carrying it on Statute Book. The real decision remains with tl Conservatives whom the national tide has swept on green benches. What is their attitude ? It can b that the prospect of a sweeping extension of self-g ment to India fills few of them with enthusiasm. all of them contend that such a gigantic experiment i government is a risky business. Where they differ the extent to which they regard those risks as justi On that they are divided into three sections.

The first and at present much the largest secti those who whole-heartedly support the Government. regard themselves as realists. They stand by the c sion, however unpalatable, that the time of tutelage in is over and that it is impossible to impose a governm force, however preferable that form of government n to the one that it is desired to substitute for it. Thei spokesman from the back benches was Sir John Wa Milne, the chairman of the Conservative India Comn It was he who did so much to upset Mr. Churchill's e by interrupting to ask what Mr. Churchill's authorit for saying that the civil service was "packed" in f of the reforms. The outburst of cheering that greete Churchill's temporary discomfiture at being unable to s the required evidence plainly showed the direction sympathies of the great majority.

But it would be idle to deny that Mr. Churchill's f ing indicates signs of increase. He is now attracting recruits from among the younger men who make up a large proportion of the present House of Com The Secretary of the India Defence League, Mr. Donner, is one of them, and men like Commander A

and Mr. Lennox Boyd are powerful additions. It is notable that Mr. Robert Boothby, one of the most influential of the young Conservatives outside the Government, is now voting with the Die-Hards. Though Mr. Churchill did not challenge a division on the White Paper, on the motion for the appointment of the Select Committee he took 80 Conservatives into the opposition lobby with him. It is true that the issue on that occasion was narrowed down to the existence of an overwhelming preponderance of Government supporters on a Committee that was supposed to be impartial. But the doubling of Mr. Churchill's strength in the lobby was not without its significance.

Probably the real arbiters of the situation are the third group in the Conservative party which has not yet made up its mind. They include men like Sir Robert Horne and Mr. Cadogan, who was on the Simon Commission. They are awaiting the report of the Select Committee before they will declare themselves on the critical question of responsibility at the centre. Much depends on the attitude of the Conservative party in the country. Far the most formidable revolt against the White Paper policy has come from the constituencies. Resolutions against the Government policy are pouring into the Conservative central office. They by no means come exclusively from constituencies represented by members avowedly opposed to the Government's policy. Frequently they are passed in direct defiance of the views of the sitting member with whom on all other questions the members of the association would be in complete agreement. The resolution of the Horsham and Worthing Conservative Association is a case in point. Lord Winterton, the sitting member, has all the prestige that comes from 29 years' continuous representation. At a meeting of his association summoned to hear his views he strongly supported the federal solution proposed in the White Paper as being "the wisest and safest course." He cited as supporters the names of men like Lord Irwin,

Lord Peel, Lord Reading and Lord Lytton, and "almost all the prominent business men recently or at present connected with business in India who have spent most of their working lives there." It was to no purpose. He was defeated by 161 votes to 17. Yet Lord Winterton was the man who was put up by the Government in the last Indian debate as the most convincing speaker to answer Mr. Churchill.

It is not merely constituencies in the rural and residential areas that are revolting against their members' support of the Government policy. One after another the constituency associations in the Lancashire towns are passing hostile resolutions. One of the central organisations of Conservative women and the Junior Imperial League have also passed motions against the Government policy. Indeed there is a danger that at the annual meeting of the Conservative caucus in the autumn not even Mr. Baldwin and Sir Samuel Hoare together might be able to prevent an adverse vote.

It is impossible to estimate what would follow upon that. The general impression is that the Government will in no circumstances throw over their policy and that the rebels, faced with the prospect of splitting the Conservative party from end to end, will give way rather than bring it about.

The difficulty that the supporters of the Government policy find is to mobilise enthusiasm for it. The great mass of the electors are ignorant of and uninterested in the Indian problem. The sprinkling among the working classes who have any personal knowledge of India are mostly returned soldiers whose inclination would be naturally towards the policy of the strong hand. But though it is not easy to obtain any very definite expression of support for it, the electors in general are almost certainly on the side of an extension of self-government, for the policy of repression is traditionally unpopular in England.

And, to return to the House of Commons, it must be remembered that the three sections we have described are

all of them members of the Conservative party. It is one thing to feel doubts about the proposed reforms, it is quite another thing to carry these doubts to the point of putting the Government out of office and breaking up their party. The Government, moreover, could certainly count upon the support of Labour as well as Liberals, if their scheme were really in danger of being thrown out when it comes back to Parliament from the Joint Select Committee. But the doubts in the country have been sufficiently pronounced to show the importance of nothing happening in India that would further strengthen the hands of the opponents of the Government's proposals.

The fundamental difficulty is that, while it is easy to point to the inherent dangers in any measure of constitutional advance in a country as large, as diverse and as illiterate as India, and to appeal to the natural pride of the Briton in the century of peace and order he has given to India, it is much more difficult to bring home to Parliament or English audiences the political facts of modern India—the advance of education (10 million students in primary schools, 100,000 in universities), the influence that educated Indians exercise upon their illiterate countrymen, the development of an Indian press, the strength and influence of nationalist political opinion, the economic transformation of the village through the effect of world prices, the Indianisation of the services and the extent to which legislatures and Ministries are now in Indian hands. It was pointed out during the debate in the House of Lords that, in the legislatures, there are 935 elected members to 166 officials. In the central legislature there are 145 elected and nominated members as against 26 officials. No fewer than 32 out of 43 Ministers in the provinces are Indians. In the large provinces there are five Indian Ministers out of seven, in the medium provinces four out of five, and in the smaller ones three out of four, and there are three Indians in the Viceroy's Executive Council. Yet, it is on the weighing of these political facts as against the physical

and geographical facts that any sound judgment as to the future form that "dualism," inevitable in India to-day, should take in the new constitution must be based.

The White Paper had an unexpectedly easy passage through the House of Lords. Most of the speakers were men who had had practical experience in India, and spoke to the merits or demerits of the particular proposals rather than on the abstract issue as to whether the White Paper was abdication or statesmanship. The House listened to these expert opinions and was clearly content to await the report of the Joint Select Committee before coming to a judgment.

London.
May, 1933.

II. The Reaction in India

(From our Correspondent in India)

NORMALLY, contributions from India cover a period of three months, and discuss comprehensively whatever important political, administrative or economic events may have occurred during that period. The present one is relatively restricted in scope and deals with one subject only—the reactions in India to the White Paper; and since the White Paper was issued only on March 18 and this section is dated April 21, it will not be concerned except incidentally with occurrences outside a limit of about four weeks.

April 21 being the day on which the names of the Indians invited to attend the Joint Select Parliamentary Committee were published, the section of time under review, though short, is nevertheless a tidy and compact chronological unit, within which what must seem to English readers the essential contrariness of the Indian response to the White Paper shows up clearly. For, while on the one hand the vast majority of Indian politicians and political organisations of standing have vehemently denounced His Majesty's

vernment's proposals, or portions of them, on the other important group which was represented at the last ion of the Round Table Conference in London has wn any genuine desire either to abstain from parpating in further constitutional discussions or to mit itself to boycotting the new system of government, n if it is introduced precisely as set forth in the White er without any modification in accordance with Indian ires. Indeed, the list published to-day renders this under-statement, since among the new names are those wo individuals representing interests which were not esented in London last winter.* To a casual visitor n abroad who had arrived in India for the first e on March 18 and endeavoured to follow the movets of political opinion by studying the newspapers, so sfactory an outcome by this date would have seemed nceivable. The denunciations of the White Paper filled the press during the first ten days or so after publication were so intense, voluminous and compresive, that he would doubtless have concluded that tically the whole of political India was united in sidering His Majesty's Government's proposals utterly cceptable, and that in such circumstances the chances new constitution on the lines suggested being success- y established, or even of representative and influential ian politicians in any number thinking it worth while o to London to discuss it, were practically nil.

Namely, Mr. Rangaswami Iyengar and Sardar Buta Singh. The former, is perhaps more usually looked upon as a right-wing Congressman than -wing Liberal, is believed to have refused an invitation to attend the session of the Round Table Conference owing to the fact that Mr. lhi and other Congressmen were in jail. (It may incidentally be rked that both Sir Purshotamdas Thakurdas and Mr. Kelkar, who are on the list, have at one time or another during the last three years been iated politically with Congress.) The significance of Sardar Buta i's inclusion in the list is that he is a Sikh from British India. It will membered that in protest against the terms of the Communal Award Sikh delegates who had attended the second session of the Conference ed to attend the third session, and that in consequence the only Sikh nt at the latter was one from an Indian State.

Naturally, the most vehement denunciations of the scheme were found in the pro-Congress newspapers, and the following extracts from editorials, all of which appeared within the first three or four days after the White Paper was published, are typical of the kind of comment in which a substantial portion of the Press indulged. The *Tribune* (Lahore) declared that "on almost every single point the proposals contained in the White Paper constitute a definite infringement of the basic principles laid down in the October announcement* in the Premier's speech at the conclusion of the first Round Table Conference, and in the Delhi Agreement.† Altogether, the White Paper justifies the worst apprehensions of those who have been indulging in gloomy forebodings during the last few months. We have not the smallest doubt that those who have any right to speak on behalf of political India will with one voice reject the offer contained in this document." According to the *Amrita Bazar Patrika* of Calcutta, the proposals of the Government showed "their contempt for public opinion." "They (the proposals) would," declared the *National Call* of Delhi, "give the Viceroy the powers of a hundred Hitlers and Mussolinis. . . . Responsibility conceded with one hand is taken away with by the other." "A mockery of progress" was the verdict of the *Hindustan Times*, "not a vestige of the principle of responsibility." "Unacceptable provisions and sinister precautions," said the *Bombay Chronicle*, and so on.

Criticism of the proposals by the Liberals and other predominantly Hindu groups which have hitherto stood aloof from the Congress was also severe. The *Hindu* of Madras, a powerful organ edited by Mr. Rangaswami Iyengar,‡ remarked that

the White Paper will be received not perhaps with surprise, but none the less with supreme dissatisfaction. The Government's

* *i.e.*, in Lord Irwin's announcement of October 1929.

† *i.e.*, the "Irwin-Gandhi" Agreement.

‡ *Vide* footnote, p. 555.

proposals aim not at setting up a self-governing federation conditioned by safeguards of a temporary self-eliminating character, but at maintaining virtually intact the control of the Central Government from above.

The *Leader*, an influential Allahabad paper edited by Mr. C. Y. Chintamani,* entitled its first leading article "White Paper and Black Outlook." Mr. Chintamani further declared, during the debate on the White Paper in the United Provinces Legislative Council, that

everyone must have realised that the overwhelming consensus of opinion in the country is that the scheme falls short of even moderate expectations and is cast on lines divergent from those on which Indian reformers wish the future constitution to proceed. If the people of England are not going to take seriously and treat with sympathy the unanimous desire of the people of India for a genuine scheme of self-government, a crisis is bound to overtake both countries.

Sir Tej Bahadur Sapru,† in a press statement issued shortly after the White Paper was published, said:

India has given a hostile reception to the new constitution. That it is not a constitution for a self-governing Dominion requires no argument. Its outstanding feature is that it has laid far more emphasis on safeguards and reservations than on central responsibility and the possibility of its early growth and expansion. The constitution as outlined is one which none can enthuse over, and from the point of view of constitutional theory exhibits a large front to attack.

Mr. M. R. Jayakar,‡ Sir T. B. Sapru's close political associate, said: "Almost all the undesirable features of the last Round Table Conference have been repeated in the

* A former Minister of the United Provinces Government and delegate to the earlier sessions of the Round Table Conference.

† The well-known Liberal from the United Provinces who has taken a prominent part in all three sessions of the Round Table Conference, and was formerly Law Member of the Viceroy's Executive Council.

‡ Mr. Jayakar comes from the Mahratta country; was formerly associated with the Hindu Mahasabha, and was one of the founders of the "Responsive Co-operation" group which has stood between Congress and the great mass of Hindu nationalism since 1931.

White Paper, and none of the suggestions that Sir Tej Bahadur Sapru and myself made to the Secretary of State—with the exception of two—find a place in the document. The coming of federation seems to be more distant than ever." Sir P. S. Sivaswamy Aiyar,* Mr. V. S. Srinivasa Sastri† and Mr. Ramachandra Rao, in a joint statement on behalf of the Madras Liberal League, declared that

the White Paper is inspired throughout by deep-seated distrust of the capacity and *bona fides* of the legislatures, the activities of which will be surrounded by so many restrictions that it will be impossible for any sense of responsibility to grow up. In effect, the scheme appears to be a perpetuation of the present *régime*. The vast powers conferred upon the Governor-General and Governors amount virtually to autocracy, not mitigated but strengthened by the unchecked control of Whitehall.

Sir Purshotamdas Thakurdas‡ is reported to have remarked: "The White Paper is said to embody the decisions of the Round Table Conference, but the several dissents by Indian members at the various meetings find no place in it. As far as the third Round Table Conference is concerned, my dissents have been discarded, and I must therefore mark my emphatic protest against the decisions of His Majesty's Government." In the debate on the White Paper in the Bihar and Orissa Legislative Council, Mr. Sachchidanand Sinha§ characterised His Majesty's Government's scheme as a political imposture. The system that was sought to be installed would, he declared, "perpetuate British domination and enthrone pure and unadulterated autocracy, rendering the people far more

* "The grand old man" of the Indian Liberals.

† Formerly Agent of the Government of India in South Africa.

‡ A well-known Bombay merchant who has at times closely identified himself politically with the Congress, and whose acceptance of an invitation to attend the last session of the Round Table Conference caused that party some annoyance. His name is on the Joint Select Committee list referred to on pages 555. Was a member of the Hilton Young Financial Commission.

§ Formerly Finance Member of the Bihar and Orissa Government.

ess to resist the despotism of the Government than are at present." During the three days' debate on White Paper in the Legislative Assembly, Dewan dur Ramaswami Mudaliar* declared that "the White r must be subjected to two tests—namely, how far proposals are in consonance with the hopes and aspira- of the people when Lord Irwin announced the ion to convene the first Round Table Conference, how far they embody the agreed decisions of the erences." He considered that on some fundamental s the scheme involved "an unjustified departure the agreements," and launched a strong attack on the osals made regarding the position of the All-India ces under the new constitution. Sir Hari Singh ·† complained that the White Paper did not contain rd on the question of Dominion status, and urged the Declaration of 1917, as amplified by the Irwin aration,‡ should be embodied in the future Government dia Act. Mr. B. Das§ asserted that only 20 per cent. sponsibility would be transferred to Indians under White Paper scheme, and took strong exception to proposals that a Statutory Railway Board should be lished under the Constitution Act. Mr. F. X. De a‖ described the White Paper as "waste paper" ining an unnatural combination of autocracy and cracy. There was, in his opinion, no doubt that the uards had been framed in the interest of the paramount r. Mr. H. P. Mody¶ said that the White Paper did secure one of the fundamentals of good government,

* leader of the Madras Justice party. Has attended all three sessions Round Table Conference.

† ader of the Nationalist party, whose name is on the Joint Select ittee list referred to on pages 555.

‡ e first footnote on page 556.

§ ip of the Nationalist party.

‖ nominated member of the House. Formerly a member of the Civil Service.

¶ prominent Bombay merchant.

namely, that the control of the Secretary of State should be eliminated from the day-to-day administration of the country.

The White Paper scheme was also denounced by the various communal organisations. The All-India Hindu Mahasabha, at a meeting in Delhi on March 27, adopted an extensive list of resolutions adverse to the proposals, among them being one declaring that the Communal Award, which formed the basis of the structure of the proposed new constitution, is predominantly pro-Moslem and highly unjust to the Hindus. On the same date the All-India Moslem Conference in Delhi passed a corresponding resolution in which profound disappointment was expressed at the proposals contained in the White Paper, and radical changes in the scheme were demanded. Sir Mohammad Iqbal,* who presided over this meeting, had previously in a public statement declared that the White Paper would not satisfy either the country as a whole or the Moslem community, since provincial autonomy would be crippled by the special powers reserved for the Governors. Chaudhri Zafarulla Khan,† during the debate on the White Paper in the Punjab Legislative Council, strongly criticised the safeguards and reservations which, in his view, caused real equality of status "to be lost in a distant mist." The majority of the Moslem newspapers also expressed disapproval of the scheme, the *Eastern Times* of Lahore, for example, which is normally considered almost a pro-Government paper, declaring that "the reforms outlined in the Parliamentary White Paper are unacceptable to politically-minded India as a whole, and even these will not prove workable unless they are considerably modified in the light of popular opinion as expressed in the Press and on the platform."

* Well-known as a poet and leader of Moslem thought in the Punjab; a delegate to the Round Table Conference sessions.

† A Round Table Conference delegate; recently a temporary member of the Viceroy's Executive Council.

is spate of denunciation must, to anyone who took it face value, have appeared of extremely ill omen for ntroduction and working of the new constitution. :horus of disapproval was not, of course, unanimous. of the powerful English-owned newspapers, including *tatesman* (Calcutta), the *Times of India* (Bombay), the *as Mail*, the *Civil and Military Gazette* (Lahore), and *'arachi Gazette*,* supported the scheme, as also did a ndian-owned newspapers, such as the *Pioneer* (Allaha- the *Star of India* (Calcutta), and the *New Times* ras). The *Statesman*, in its first leading article, ·ked :—

one can read the White Paper without realising that nothing an a revolution by constitutional means is proposed, and that the Crown a gigantic transfer of power and responsibility he Government and Parliament of Great Britain to Ministers ·sible to Indian legislatures, and to legislatures responsible reatly extended electorate, is involved.

e paper added, "Some of the most epoch-making ;es occupy only a few lines, while inevitably pages are ›ied with restrictions and safeguards which, in the :sts of the smooth working of the new constitution, to be defined clearly and exactly." A considerable ›er of individual politicans also, either in statements to ress or in speeches during the debates in the central ›vincial legislatures, welcomed the proposals, or portions ıem. The fact remains, however, that favourable ıents were relatively so infrequent as to be practically erged beneath the torrent of denunciation with which Vhite Paper was greeted, and that anyone unfamiliar Indian conditions and with the methods of political oversy in this country would have considered it :able that the publication of His Majesty's Govern-

ıe *Englishman* (Calcutta) was the only paper in this country which attacked the White Paper from the "die-hard" point of view, g that it conceded too much. Some of the comments of the *Civil ılitary Gazette*, however, were also critical from this side.

ment's constitutional proposals must result in a pronounced and widespread deterioration in the general political atmosphere.

The reasons why the Indian reaction to the document was superficially so extremely unfavourable are diverse, and require analysis. First, there is no question that even the most moderate sections of Indian political opinion were genuinely disappointed with certain portions of the proposals. Probably the part of the White Paper which was most strongly resented was that which dealt with the future control of and recruitment to the all-India services. During the month which has elapsed since the White Paper was published, criticism has been increasingly concentrated upon these provisions, and the speeches by some of the ablest and most respected Indian Liberals in the Legislative Assembly, such as Sir Cowasji Jehangir and Dewan Bahadur Ramaswami Mudaliar, have demonstrated that Indian opinion as a whole considers the retention of control by the Secretary of State to the degree proposed, in principle, obnoxious, and, so far as the White Paper scheme as a whole is concerned, logically unnecessary. The extent of the special powers conferred upon the Governor-General and the provincial Governors was also strongly objected to, though there have been indications during the last fortnight or so that the more responsible political leaders realise that a good deal of the criticism under this head was misconceived, and that the likelihood of these special powers being brought into force is much less than seemed superficially probable when the White Paper was first perused. Other features of the document with which the Indian moderates expressed themselves particularly disappointed were the limited scope of the future Finance Minister's control over the expenditure of central revenues, the decision to establish a Statutory Railway Board under the Constitution Act, and the uncertainty regarding the date of the inauguration of federation. Disquiet regarding the last item was naturally accentuated by the acute

ions which broke out among the princes during the n days or so after the White Paper was published ng the fundamentals of the whole federal scheme. ctions to the substance of the proposals were ated by the form in which the document was cast. he Indian point of view it had, in this respect, nost conspicuous defects, which rendered it, on camination, singularly dispiriting and repellent. dry, precise, almost legal in manner and wording; altogether devoid of abstract generalities and nts of the kind which readily fire the imagina- politicians and newspaper men, particularly in this ; and it laid emphasis throughout on the negative ohibitory aspect of the proposed constitutional , making no attempt to expatiate upon, or indeed explain in much detail, the extent of the immense of power to Indian hands which it implied. Even ible European officials were heard to remark that, as manner and phraseology were concerned, it carcely have been more offensive to Indian senti- it had been expressly designed for the purpose. hough the majority of Indian politicians of standing ell aware of the parliamentary reasons why it was in this particular shape, and recognised also that ate most of its contents derived directly from the Table Conference agreements, sentiment has in the yed so peculiarly important a part in Indian politics re seemed a real danger that the cold and uninspir- in which the White Paper was written might cause s emotional reaction against the actual proposals ined.

pointment with the form of the document and rtions at least of its substance was therefore and would alone have sufficed to account for deal of the adverse criticism directed against it. eam of denunciation, however, was artificially ed from other sources. The fact that the measure

of real power and responsibility enjoyed by the generality of Indian politicians has hitherto been relatively small has rendered criticism among them of anything emanating from Government habitual, and much of the condemnation with which the White Paper was received was manifestly of the parrot-like kind to which everyone is well accustomed in this country, and to which no great importance is attached. In addition, there is no doubt that the propensity of Indian politicians and publicists for indulging in purely automatic abuse of any official proposal regarding the future government of this country was reinforced on this occasion by the desire to neutralise by means of denunciations here the utterances of Mr. Churchill and his supporters in England. Finally, the fact that the Government is still engaged in carrying on a species of "war" with the Congress, rendered it inevitable that the White Paper, whatever its form had been, should be condemned by all newspapers, associations and individuals who have definitely committed themselves to supporting the Congress policy.

The reactions of the Congress to the document have been interesting. For a period of about a month before it was published there were increasing signs that many Congressmen felt that persistence in their present policy must prove politically suicidal, and that, since the civil disobedience movement on this occasion had obviously failed, it had better be definitely abandoned, and some arrangement made for working with the Liberals and other nationalist groups to secure "the substance of independence" for India. Influential pro-Congress newspapers such as the *Tribune* (Lahore), both before and after the White Paper was published, devoted much space to urging the importance of organising "a united national effort" to obtain an ampler measure of reforms than appeared likely to emerge from the Round Table Conference scheme, and it was clear that among nationalists of various schools of thought there was a growing conviction

that persistence by the Congress in the civil disobedience policy was futile. Mr. Jamnadas Dwarkadas, a prominent Bombay Congressman, had in February publicly repudiated the Congress creed, and subsequently in an open letter to Mr. Gandhi, which was extensively reproduced in the press, remarked that,

> if after starting non-co-operation you could negotiate with the Government on its Communal Award, and from behind prison bars could launch a campaign against untouchability, and even advocate co-operation, then no man of common sense will accept your argument that you cannot call off a movement which thousands have joined solely in deference to your wishes.

At about this time Sir Chimanlal Setalvad, the Liberal politician, in a statement to the *Times of India* on the general political situation, declared that it was the clear duty of Mr. Gandhi to call off the civil disobedience movement, which had been rendered moribund by the firm policy of Government, and thus to end the sufferings of thousands of misguided Indians in jail. Mr. Chagla, a nationalist Moslem of Bombay, who has closely identified himself with the Congress creed in the past, pleaded in a speech at a meeting of the Moslem students' union for the abandonment of the civil disobedience movement. Mr. Kelkar and Dr. Moonje, the Hindu Mahasabha leaders, who have also from time to time been associated with the Congress, made similar suggestions, the former advising the Congress in a series of articles in his paper, *Kesari* (Poona), to withdraw civil disobedience and concentrate on the capture of the legislatures under the reformed constitution, since the movement had outlived its usefulness and the people had become disgusted with it. During the confabulations at about this time, which took place in Poona and Benares amongst such Congress leaders as are at present at liberty, it is believed that an influential section of those present, including Mr. Aney, the acting President, expressed themselves in favour of abandoning civil disobedience. The consensus of opinion, however, is known

to have been against this course, and it was due to this that the intention of the Congress to hold their annual session in Calcutta at the end of March in defiance of the anticipated prohibition by Government was persisted in.

The attempted session, however, was manifestly a fiasco. Its organisers, it is true, succeeded in persuading a fair number of "delegates" from various parts of the country to make the journey to Calcutta,* and some of these managed to hold a species of meeting in the city, during which small portions of pre-arranged resolutions are claimed to have been read. It was, however, obvious enough that the decision to hold a session could only be justified if it enabled Congress to work up enough popular excitement to cause, on the one hand, a definite revival of interest in, and sympathy with, the civil disobedience movement, and, on the other, manifestations of "cold feet" on the part of many of those who would normally accept invitations to attend the Joint Select Committee. And it was soon clear that in both these respects the Congress had signally failed. Even in Calcutta, very little interest was taken in the proceedings, their intrinsic absurdity being emphasised by the fact that Government decided that it was not worth while to retain in captivity for more than 48 hours or so those whom they had arrested in connection with it; and the country as a whole remained almost entirely unmoved, the spectacular and widespread *hartals* and so forth, which during the 1930–31 civil disobedience movement were the almost inevitable consequence of arrests of Congress leaders, being conspicuously absent. Again, as regards the intimidation or exercise of pressure upon the moderates, the publication to-day of the very satisfactory list of widely representative Indian

* The vast majority of these, however, came from two provinces only, the United Provinces and Bihar and Orissa. The relatively very meagre response from elsewhere must have been disappointing to the Congress leaders, particularly in the case of Bombay, in view of the hold they have hitherto exercised over that part of India.

politicians who will be attending the proceedings of the Joint Select Committee is sufficient to demonstrate how complete the failure of the Congress has been.

There seems now no reason at all to doubt that during the last year or so an increasing proportion of the politically minded classes, owing partially to the experiences of 1930–31, and partly to the near prospect of obtaining a large measure of political power under the reforms, have begun to look with active disfavour upon subversive activities and to approach political problems in a more realistic spirit than has been customary in the past. The debates on the White Paper in the Legislative Assembly, the Council of State, and the various provincial Legislative Councils were throughout practical in tone, and although, as we have seen, there was a great deal of adverse criticism of the details of the scheme, there was singularly little inclination to consider it from the standpoint of abstract political theory, and such appeals to sentiment as were made regarding it fell noticeably flat. If, as appears probable, this tendency to eschew emotionalism and concentrate on common-sense practical details remains a feature of Indian politics until the new constitution is established, the prospects of its working successfully may be considered bright.

India.
April 21, 1933.

Postscript.

Mr. Gandhi, who had just commenced his three weeks' fast on behalf of the untouchables, was released from Poona gaol on May 8.—Editor.

CHINA AFTER THE LOSS O[F] MANCHURIA

THE Manchurian affair presents to the outside
an abnormal number of international aspects. B
the question of the relations between the principal
there is the League of Nations constitutional aspec
Russo-Japanese, largely strategic in character, the Ame
Japanese and, closely connected with it, the mome
problem of the balance of power in the Pacific ; there
point of view of Manchuria and its inhabitants, c
reactions inside Japan and, finally, the effect on Chin
on Chinese foreign relations.

From a world standpoint the last of these aspe
certainly not the least important. The question ho
China, emerging from the crucible of the Manch
troubles, will be a changed China is one of primary int
and it is this aspect of the problem which is conside
the following pages. It may appear somewhat premat
attempt to estimate the effects of a conflict which a
time of writing is still in progress, and one does so wit
consciousness that events yet to come may stultify p
conclusions. But those who deal with Far Eastern a
learn the hopelessness of waiting too long on events,
point has been reached which seems to justify at lea
interim summing-up on broad and general lines.

I. The Economic Effects of the Loss

THE effects on China of the Manchurian affai
conveniently under three headings, the economi
political and the psychological, meaning by the last of
the impress on the Chinese mind. To begin wit
economic, the first question to consider is what Chin
lost by the cutting off of her Manchurian provinces.
this purpose let us, for brevity's sake, take " China

meaning the China of to-day—China within the Wall—and limit the meaning of loss to the actual injury incurred, without taking into account the loss of future potential benefits. It is true, looking ahead, that the potential losses may in the long run prove vastly the greater, but to reckon the "might have beens" would lead us too far afield and involve us too deeply in the realm of speculation.

The only practical course, then, is to base our enquiry on the facts of the situation as they were at the time when the separation of China and Manchuria took place. What was the economic benefit accruing to China prior to that date and how much of it has been lost? Economically Manchuria was already almost a separate unit, divided from China by a belt of mountainous country with only one practical land route running along a narrow corridor between the mountains and the sea and a single line of railway* passing through the gap. By sea, it is true, communication has always been easy between the coasts of the two promontories—the Shantung and the Liaotung—which face each other at the mouth of the Gulf of Chihli and are less than 100 miles apart; but apart from the "coolie traffic," with which we will deal later, the business from port to port has been of relatively small importance. The far more considerable trade route between Dairen and Shanghai carried mainly transit cargoes in so far as China was concerned. Intercourse generally between Manchuria and China was on nothing like the same scale as between the individual provinces south of the Wall.

Manchuria's railways had developed independently and, taken as a whole, were almost completely divorced from the railway system of China. She is self-sufficing also in the matter of sea ports, of which she possesses three, including that of Dairen which has hitherto ranked as the third in

* The division of this railway into two halves, managed one from each end, and with the revenue similarly appropriated by an act of *force majeure* on Mukden's part, was a typical instance of the relationship between the central and Manchurian Governments.

importance in China. Commercially Manchuria st her own feet, having, unlike the rest of China, a fav trade balance. The customs, the posts and the Salt (were under the control of the central Government of which received the revenue of the two former and the revenue of the third. For the rest the public fi were almost, if not entirely, distinct from those of N Lastly, the military establishments—an essential ma take into account in any reckoning up of Chinese ecc affairs—stood on a wholly separate footing, while f supply of munitions of war the Manchurian Gover had its own arsenal at Mukden.

Under these conditions the economic interdepend the two territories, as well as China's share in the wealth of her Manchurian provinces, were less than at first sight have been expected, and any analogy one be tempted to draw between these and superficially cases, such as that of Alsace-Lorraine or Upper would be apt to be very misleading. With this qu tion in mind let us now consider in turn the most imp respects in which China's economic position is, or is c of being, affected by the loss of her three " E Provinces" and the setting up of an independent Manc Government.

First, to take emigration. The outlet for over lation which Manchuria has for years past provid absorbing every year several hundreds of thousands of C peasants from the provinces of North China ha closed by the present crisis and its reopening will c on whether conditions of peace and security are estal in the northern and western regions to which most emigrants used to go. No one can say when and unde conditions the movement will recommence. If it afresh when Manchuria settles down, the emigrants w for the most part Shantungese (some of the best material in China), will in any case be lost to Cl citizens. The economic importance to be attributed

stoppage of immigration will of course largely depend on the view taken with regard to the whole problem of Chinese over-population, though the monetary side also enters into the account through the loss of the remittances sent back by the settlers to their homes in Shantung or other parts of North China—the counterpart on a very much lesser scale of the huge influx of money into the ports of Southern China from the colonies of Chinese in America, the Dutch East Indies and elsewhere.

Akin to this stoppage is the loss of imported wealth formerly brought back in the form of savings by the army of seasonal labourers who went every year to Manchuria and shared in the prosperity which she derived from the great increase in her bean trade. In this connection, the wider question arises: how much of the profit accruing from the favourable balance of trade of the three Eastern Provinces found its way into the rest of China? This is not an easy question to answer. The existence in the heart of Manchuria of the South Manchurian Railway with its many industrial subsidiaries, the profits of which passed into alien hands, the official manipulations of the Manchurian currency and the unknown factors of military expenditure and of financial "deals" between the Mukden and Nanking Governments make it impossible to determine the eventual destination of the credit balance of trade. That considerable funds accumulated in the hands of Manchuria's rulers is a notorious fact, and a proportion of them must certainly have found their way into China proper. This was especially the case at the end of 1930 after Chang Hsueh-liang had transferred his headquarters from Mukden to Peiping and brought Manchurian wealth to the old capital of China, which in consequence experienced a visible recovery from the bitter impoverishment of the previous few years. Besides these various channels for the flow of funds from Manchuria into China which for the present have ceased to exist, we have to remember the contributions from the Customs and Salt Gabelle to the central Government's

exchequer. The former used to amount to nearly one-third of the total Customs revenue and its loss represents a serious diminution of the Government's income.

The last important factor is the volume of trade. There are no available statistics which would enable us to make an accurate measure of the China-Manchuria trade, but according to the calculations of the experts attached to the Lytton Commission,* China's share in Manchuria's imports during the years immediately prior to the crisis was about 32 per cent. and her share in the exports about 25 per cent. The Chinese market for Manchurian natural products—soya beans, especially in the form of beancake fertiliser, grain, coal and timber—and the value to China of the Manchurian market for her cotton-piece goods and other manufactures has to be estimated in the light of its great potentialities, as well as in that of its development up to date. Any permanent curtailment would certainly be a serious loss. It must be remembered too that Shanghai has served as the entrepôt for most of Manchuria's trade, and that Chinese shipping carried some 10 per cent. of the trade with Manchurian ports. To what, if any, extent China is destined to suffer in these respects—trade, agency and shipping—through the creation of Manchukuo still remains to be seen. It will depend of course mainly upon the Manchukuo policy with regard to tariffs and other restrictive measures. Last year's figures for the port of Dairen actually show a substantial rise both in imports and exports with China, but until the political trend is clearer there is very little to build on. One circumstance, which in any event should stand China in good stead, is the fact that the bulk of Manchuria's trade is, and seems sure to remain, in the hands of Chinese.

This weighing up of China's actual losses in the economic field, judged with a due sense of proportion, inclines one to the view that they are not of vital importance and

* See Special Study No. 6 annexed to the Lytton Report. China's proportion of Manchuria's trade as a whole is there given as 28 per cent., comparing with Japan's 40 per cent. share.

e course of Chinese affairs is hardly likely to be
l by them to a very material extent. Nanking has
t in its revenue, and there are elements in the north,
lly in Shantung, which are feeling the pinch from the
ge of emigration and the inflow of imported funds;
ring China as a whole, it is probably safe to say that
w of the population will be conscious of any change
r daily life as a result of Manchuria's new status.
Lytton Report remarks: "The principal ties between
uria and the rest of China are racial and social rather
conomic."

II. The Political Effects

E political effects of the conflict with Japan and
ie creation of Manchukuo can be divided into those
affect China from outside and those which affect her
within. In the former category the most vital are
ie effect in connection with her northern frontier,
ly the effect on her relations with Japan and Russia,
tly the effect upon her position *vis-à-vis* the League
ions and the world at large.

old Argun-Amur boundary with Russia, though
tive of much friction at various times, was on the
a reasonably stable frontier. Manchuria itself, more-
which bore the brunt of frontier disputes and took
ck of any armed conflict which might occur, served
fer for China. So long as Manchuria's relationship to
nained what it was there was no great risk of China
hole becoming embroiled in a vital frontier dispute
ussia. From the strategic point of view her remote-
om the vital points of contact was a guarantee of
y for China. The new frontier-to-be (assuming no
ient occupation by Manchukuo-Japanese troops of
proper) will presumably follow the line of the Great
or rather the foot of the ranges along which the
Wall runs. For China this will mean a far worse

strategic position, the reappearance, in fact, of that secular threat from the north which has played so large a part in modelling her history. Whoever holds the passes has Peking and the northern plain at his mercy. The implications of this alteration in the strategic position are too wide to trace out here, but it is obvious that the change may have the most far-reaching consequences.

A secondary point about the new frontier is the fact that its eastern extremity will intersect a region of great mineral wealth. The rich coal deposits worked by the Kailan Mining Company are 90 miles distant from Shanhaikuan. The dangers inherent in the close proximity of valuable sources of supply to an international frontier require no emphasis.

The question of China's future relations with Japan opens up a vast field of enquiry in which for the purpose of this article we can only select a few of the most prominent features. Reserving for a later page the "pyschological" aspect, let us for the moment look at the position from a purely objective standpoint. Thus regarded, perhaps the most pregnant effect of Japan's action in Manchuria upon her relations with China is the change that it has brought about with regard to the old sources of friction between the two countries. The effect, if one may put it so, has been to "fund" the Manchurian points of conflict. The long list of disputes over the building and financing of railways, over tenure of land, over the status of Koreans and other such matters is now wiped off the slate so far as Nanking is concerned. For China their place has at the present moment been taken by a comprehensive antagonism directed against the invader of Chinese soil. We must also, however, remember that a fresh batch of problems is almost bound to arise later on in connection with two fresh factors—the new international frontier and the passing under Japanese control of a population of 28 million Chinese. The new frontier will, for all practical purposes, place Japan on the threshold of North China. Besides the new strategic advantages in a purely military sense which the position

gives Japan, it will put into her hands the power of intervening in Chinese domestic affairs in the neighbouring northern provinces, where conditions are in a chronically unstable state. The threat of such intervention will in its turn provide a means of putting pressure on the central Government of China.

To hazard a general conclusion, the removal of the old causes of friction in Manchuria should open the way to better mutual relations, *if* China can resign herself to accepting the new situation and *if* Japan will refrain from exploiting her new power. If, on the other hand, these conditions are not fulfilled and relations remain strained, the potentialities of conflict become seriously increased and the outlook will be gloomy indeed.

Russia, like Japan, had, prior to the *coup* of September, 1931, her own bones of contention with China—the status of Barga, the management of the Chinese Eastern Railway,* the control of the Amur navigation, to cite a few of the most important of them. These matters of dispute were "hang-overs" from the Czarist *régime*, and partially faded out of the picture as a result of the Bolshevist revolution. Very soon, however, they revived and had already led to an undeclared war along the Manchurian border in 1929. The loss of Manchuria has liquidated these former Russian disputes for China, in the same way as the old troubles with Japan, and relations have become easier in consequence. The Governments of the two countries, meanwhile, found themselves ranged together in a common grudge against Japan. It therefore, surprised nobody to see them agree to restore diplomatic relations—suspended since Borodin's days when Russia made her abortive attempt to seize the steering-wheel of the nationalist movement—and it was considered a significant fact that the veteran Dr. W. W. Yen, in the judgment of many the ablest of Chinese diplomats, has been selected by his

* Since this article was written the Soviet Government has offered to sell Japan the Chinese Eastern Railway.

Government to fill the Moscow post. To maintain a Sino-Russian *entente* notwithstanding the existing position with regard to "communist" China where the central Government is actually engaged upon a military attempt to suppress the "red armies," and to win back the sovietised areas, could not be a simple problem. Much will obviously depend on the policy of Moscow on the question of world revolution as applied to the Far East. The "red" movement in central China appears, as a matter of fact, to have been comparatively free from direct Russian control for the last few years.

We must now turn to China's relations with the League of Nations, its member nations, and the United States of America. An immediate effect of the crisis was to bring China into intimate touch with the political side of the League. Apart from the (more or less personal) action of Mr. T. V. Soong in obtaining for China technical assistance from Geneva, the League has in the past filled a rather insignificant place in Chinese eyes, notwithstanding the fact that China has for many years been represented on the Council. The ordinary Chinese knew and cared little about the League. When the crisis arose it suddenly appeared as a heaven sent agent for the extrication of his country from a situation which by itself it was powerless to mend. When it became plain in due course that the Powers would not coerce Japan the inevitable reaction occurred. The League fell from its pinnacle, its popularity vanished and it is now very widely regarded as a broken reed, a delusion.

However deplorable this attitude may seem, a moment's reflection will show its inevitability. At a time when League standards for the conduct of world affairs are proving so far beyond the reach even of the organised western Powers, one cannot expect them to count for much in a country in the disorganised state of China. She has her idealists—some of them, as her records proclaim, ready to uphold their ideals at the cost of their lives—but to the mass of the Chinese people League con-

cepts are too remote from the common experience of life to have much practical meaning. The gap between what the League stands for and what China actually is, is, in fact, a little too wide. While there were signs that the League Powers might—whatever their motives—fight China's battle for her, the League of Nations was all that China could wish; when the contrary proved to be the case the League's bubble was pricked.

A similar reaction against individual Powers has shown itself in such manifestations as the unbridled wave of resentment with which a large part of the Chinese press and Chinese public opinion greeted Sir John Simon's "anti-Chinese" speech to the League Assembly. This hostile feeling may be—one feels hopeful that it is—no more than a transient phase, but it carries a latent threat which many Chinese are not unready to stress. The shattering of the hopes which were placed in Geneva and Washington will, it is said, result in China turning towards Moscow, and a further strengthening of the new bond forming between the two neighbours.

In conclusion one cannot refrain from mentioning one concrete result which the Manchurian dispute has had upon Sino-foreign affairs. Negotiations with Great Britain for the relinquishment of extraterritorial rights—implying in due course the termination of the present *régime* at Shanghai—had got as far as the initialling stage in the summer of 1930. Although a check had occurred due to an unwillingness on both sides to confirm the initialled draft (the Chinese fearing political reactions at home, the British Government not uninfluenced, perhaps, by the Thorburn case* and its popular repercussions), there was good cause to suppose that the suspension was only temporary and that *pourparlers* would be resumed without any long delay. In the meantime, however, the Manchurian crisis arose and attention was diverted to other

* In June 1931, Mr. John Thorburn, a British subject, was arrested by the Chinese, charged with killing a gendarme, and executed without trial.

matters, the "extrality" problem was shelved and there is no certainty at the present moment when or in what form it will again be brought on to the *tapis*. It may be noted, however, in passing that local negotiations on the outstanding issues between the International Settlement and Chinese "*Greater Shanghai*" *have been continued* and made favourable progress, bidding fair to lead to a settlement which will solve a few at least of the most urgent questions with regard to foreign rights.

Chinese domestic politics are, in themselves, so confused and entangled that to separate out with any certainty the effects of the Manchurian crisis on internal affairs is an impossible task. One cannot even give an assured reply to the persistent query whether Japan's attack has served to consolidate the country and lessen domestic strife. In a negative way one may point to the absence of civil war, other than local outbreaks, as evidence of the restraining effect of aggression from outside; but it is hard to discern any positive signs of closer union or even of a disposition on the part of the various cliques to sink their quarrels. The relations between Nanking and Canton—the most important in the field of internal politics—have certainly not improved and are frankly disappointing. If foreign aggression has had any unifying effect it has been among the people rather than among the politicians and "leaders."

More direct and definite consequences of Manchurian events seem likely to show themselves in the period that lies ahead. North China has been thoroughly disturbed. The exit of Chang Hsueh-liang (against whom the Japanese are reputed to have a strong personal grudge) leaves a political vacuum which the Nanking Government may, or may not, find itself able to fill, while at the same time monarchist and anti-nationalist elements from over the frontier are said to be harbouring schemes to seize the power at Peiping. The upsetting of equilibrium in the North reacts upon Nanking, whose prestige is already somewhat shaken by its inability to deal effectively with

the military situation—a handle of attack which its political rivals do not hesitate to use. To this extent the Manchurian situation has tended to weaken central authority in China and to make more imminent the ever-present risk of the country lapsing again into a state of political disintegration.

III. The Psychological Effect

It has been possible to describe the economic effects of the Manchurian affair on China with a certain degree of assurance. To approach the question of the political effects with equal confidence is difficult—to attempt to define the psychological effects must almost savour of rashness. It is neither possible for a foreign student of affairs to explore the Chinese mind with any great feeling of certainty, nor can one say—as one does of our Western press-ridden countries—that " China " thinks this, or " China " feels that, on any particular subject. Insomuch, however, as the psychological effects may, in the present instance, prove in the end the most important of all, they call for an effort to detect at least the main currents of thought set up by the events centring round Manchuria. The present attempt is based on views in the Chinese press, on personal contacts with educated Chinese and on the reports of foreigners in the interior who are in touch with the peasant masses.

The Chinese peasant, as a whole, has an extremely narrow horizon, which embraces with difficulty events in distant parts of the country. Even exposure to war and its repercussions is, alas, only a normal experience in many parts of the country where fighting and soldiery, together with floods, famines and bandits, are regarded as common misfortunes. It is true that conditions are rapidly changing under the influence of the new popular press, of the " mass educational movement " and similar aids to literacy and, near the larger cities, of educational and propaganda cam-

paigns undertaken by students throughout the countryside. It is doubtful, however, whether Manchurian affairs have produced in the mind of the rural masses anything more definite than vague feelings of hatred and horror stirred up by highly coloured descriptions of incidents in the conflict. In any case peasant opinion, in its present stage of development, is hardly a calculable factor in considering China's political course.

The town worker's position differs from that of the peasant mainly in degree. He is naturally more exposed to the influence of newspapers, and one of the striking features of last year's Shanghai affair was the comet-like rise of the "mosquito" press. Special "war extras" were rushed away from the printers, hawked noisily through the streets and snapped up by the mob in a manner reminiscent of war-time conditions at home. Mob passion is as easily excited in China as anywhere in the world, and there is no doubt that anti-Japanese feeling has run very high in the towns. The psychological aspect has a special importance as the boycott can only survive effectively so long as feeling persists among the proletariat and small shopkeeper class. While the feeling is strong there is also the standing danger of violent outbreaks against Japanese life and property, possibly opening the way to fresh hostile operations.

Among the educated classes—who alone supply an effective public opinion in so far as it can be said to exist—one comes upon several distinct currents of thought. The students, true to type, worked themselves up to a high pitch of excitement, leading to such excesses as the physical attack on Mr. C. T. Wang when he was Foreign Minister, and on other members of the Government at Nanking. Their agitation for military resistance to Japan has not been entirely confined to words. The number of students who have actually joined the ranks is probably very small (though cases of enlistment in the armies are within the writer's knowledge). A strong movement has, however,

set in for physical military training and for the study of military subjects as a step towards the creation of an up-to-date national force.

In this connection the advances of recent years in the military state of China have to be taken into account. The standard of the bulk of the regional armies may not have altered much, but the creation of "picked units" has gone rapidly ahead. A new class of professional officer has emerged from the military schools—very different from the old ignorant type; technical officers have been engaged from abroad and a great advance has been made in arms and equipment. The result showed when some of these picked units—the XIXth Route Army and the 87th Division—faced the Japanese at Shanghai, and by their determined resistance both surprised the world and roused in China a wave of military enthusiasm. There are indications, of which the attitude of the students is an outstanding example, that a new military spirit is being engendered in China and that a "militarised" China according to Western standards may be a far more imminent development than most people have imagined. Though somewhat outside the proper scope of this article, an allusion here to the export of foreign arms to the Far East is hardly to be avoided. One cannot but ask whether the Governments of the exporting countries are fully alive to the risk of there growing up a militaristic China and whether allowance is made for the possible consequences in the event of China attaining a greater degree of unity. To watch the Disarmament Conference at work and the simultaneous stream of war material pouring into China and Japan gives an impression of incongruity which would hardly be surpassed at a meeting of experts discussing fire extinguishers and throwing matches into the dry grass behind them.

The student body, whose influence in China to-day is disproportionately great, has violently opposed coming to terms with Japan and is a powerful obstacle to any move

towards a direct settlement—for which, by the way, some sections of the Nanking Government are said to be not disinclined. A different frame of mind is met with in conversation with members of the banker-merchant community, which is becoming more and more of a political force. Its *élite* meet and seriously discuss national affairs, and from this habit there is steadily emerging a corporate body of opinion which, though by no means proclaimed from the house-tops, exercises a strong influence in China and is brought to bear in discreet but effective ways at political head-quarters. The feeling one encounters among this small band of leading bankers and merchants is as strongly nationalist as that of the students and little, if at all, less bitter against Japan. It is tempered, however, by a recognition of the fact that much of the present disaster has been brought on China by herself, and by the realisation that in her present chaotic state she is impotent to stand up for her rights. The policy, therefore, to which it gives rise is one of cutting the loss. "Manchuria has gone; we shall make matters worse if we persist in a hopeless struggle; let us accept the position for the present and devote ourselves to rebuilding our national strength. In time we shall face our adversaries on an equal footing."

Such is the frame of mind of a section at least of the mercantile leaders, and with it goes a highly critical attitude towards public affairs as they are in China at the present time. A self-searching tendency and a demand for the overhauling of the whole national machine shows signs of replacing the spirit of moral surrender to the hopelessness of the situation into which many of the best Chinese seemed to be sinking before the crisis arose. Nor is this reaction to the crisis—this turning of the eyes inward—confined to a single class. Plain speaking about the evils and abuses current in public life has come in no soft terms from the highest quarters, notably in the speeches of Chiang Kai-shek, while evidence is not lacking that the friendly strictures contained in the Lytton Report—

especially those on the subject of anti-foreignism—are, in spite of all protests, having their effect on the popular mind.

Although the same movement towards a national " stock-taking " and concentration upon reforms at home appears also among the students and the leaders of the academic cultural world, there is a conflicting attitude of mind which at times finds expression there—an attitude which says : " We know we are no match for our enemies. But China must save her soul at whatever material cost. It is only by fighting to the end that our country can find itself. Our numbers anyhow must prevail in the long run ; we can afford ten lives for every one of our enemies. Let us, therefore, maintain the struggle and trust that time and exhaustion will come to our help in the end."

One other trend must also be mentioned—it has come to one's notice in recent months. We have already spoken of the feeling of disillusionment over the absence of help from Europe and America. Growing out of this one sees signs here and there of a general disgust with " western " things as a whole, a tendency to turn back from the path of " westernisation " to which China has so far committed herself. It is hard to distinguish how much of this tendency, where it exists, is due to disappointment at Geneva and how much of it to the sorry spectacle which at the present juncture the West as a whole presents to the East. The Great War shook China's all too unquestioning faith in western morals, western science and western institutions. How great the likelihood is that a further shock—combined with such proof as the past year has given of the decline of the Great Powers' effective interest in the area of the western Pacific—may start China off on a changed course, is a matter for careful thought and for serious concern to those who care for her destiny.

China.
April, 1933.

TREATY REVISION

THE veil has not, at the moment of writing, been lifted from the negotiations which are in progress for what is generally known as the Four Power Pact, but it is common knowledge that one of the objects that is being discussed is the possibility of revising the Peace Treaties in certain respects. It is not the purpose of this article to discuss the advisability of attempting revision at the present juncture—some suggestions on the question of policy will be found elsewhere*—nor is it our object to prejudge any of the questions involved, but merely to give a brief indication of the character of those questions.

I. The General Principle

THE term "treaty revision," in its currency at the present moment, is being used in a special restricted meaning which is not apparent on the face of the two words. It is being used to mean the revision of the territorial provisions of the Peace Treaties in which the political map of the world was re-drawn after the war;† and it is being used to mean the revision of these particular chapters of these particular diplomatic instruments by a peaceful agreement as opposed to a violent resolution of forces in a fresh outbreak of war. It is in this special sense, in which "treaty revision" is on the agenda of the world's affairs here and now, that we propose to use the term in this place.

The raising of the issue of treaty revision in this sense of a pacific revision of territorial arrangements is a new departure in the history of international relations; and it is in the combination of pacific revision with territorial questions that the novelty lies. There is nothing new about the pacific revision of non-territorial arrangements. To look no further than the set of peace treaties that are

* See p. 493.

† A map showing these changes will be found on pages 590, 591.

now in question, their financial chapters have been revised peacefully already, and even their military, naval and air chapters may—if the World Disarmament Conference avoids breakdown—go the same way. Again, there is nothing new about the revision of territorial peace terms by fresh outbreaks of violence. To look no further than the last general territorial re-settlement but one, after the last general war but one, we may observe that almost all the territorial provisions of the peace settlement of 1814–15, which followed the wars of 1792-1814, had been revised by violence before the outbreak of the next general war in 1914. The only two noteworthy exceptions are the political union of Norway with Sweden, which was dissolved peacefully in 1905, and the Russo-Prussian frontier repartitioning Poland, which was drawn at the Congress of Vienna, and which survived until the war of 1914–18, though it was perhaps the most iniquitous product of the whole post-Napoleonic settlement. (The reason why this particular frontier survived was that Russia and Prussia were bound together by their common interest in perpetuating the results of their common crime against Poland, even after they had drifted into opposition to one another about almost everything else.)

It will be seen that, by one or other of the two alternative methods of peaceful reconsideration or fresh recourse to armed force, peace treaties—to judge by recent history—always are revised out of all recognition sooner or later, and this in their territorial chapters as well as in other spheres. And the reasons for this matter of historical fact are not far to seek. In the first place, it is evident that even the most consummate political wisdom incarnate in mankind at any given moment is unequal to the task of politically re-mapping the world, and re-mapping it permanently right, in a single act of settlement! Wisdom, as we believe, in an empirically minded England, comes mostly by experience and hardly at all *a priori*; and to learn by experience takes time. And then again, at the

close of any general war, the peoples are as a rule in the wrong mood and the governments in the wrong hands for exercising any sort of political wisdom. For the moods and the men that are the best for winning wars are clearly not the best for making successful peace settlements (which means subordinating present passions to a long and dispassionate view of the future). Finally, in violent and general wars "war aims" as a rule crystallise into a vindication of general principles which have usually become half anachronisms before they are taken up by the victors. For example, the peace settlement of 1814–15 was made by the coalition that had beaten Napoleon in the name of the principle of "dynastic legitimacy," at a time when legitimacy was already doomed to forfeit to nationalism such hold as it had over men's hearts and consciences. Similarly, the peace settlement of 1919–20 was made by the Allied and Associated Powers which had beaten Germany in the name of the principle of "national self-determination," at a time when nationalism was bound to wreck society, if it could not, or would not, accommodate itself to the exigencies of the new economic and financial system of "the machine age," which cannot operate effectively on anything short of a world-wide scale.

These considerations indicate why it is that peace settlements always are ephemeral; on this occasion, however, there is, we may be confident, no idea in the mind of our Government of any revision that would upset the principles of the settlement of Versailles. Whatever the dangers inherent in the idea of national self-determination, it still holds the field as firmly as ever, and apart from this, public opinion, both in this country and in France, would be strongly against any dangerously drastic course—many, indeed, doubt whether, in view of what has been happening in Germany, it is a suitable moment even to revise details.

If revision, then, is attempted, it will almost certainly be confined to one or two danger-points which, if left as they are, might later involve Europe in war.

Territorial changes will necessarily be confined to a minimum. This is a common-sense principle which is dictated by the very complexity and delicacy of our latter-day social structure in this "machine age." In the age of Charlemagne, or even in the age of Charles V, when the normal economic unit of western life was the self-sufficient agricultural village community, these social atoms could be arbitrarily separated from or combined with one another politically with relative impunity. In these latter days of machine-made interdependence, the social life of mankind has become a seamless robe in which the economic and political threads are almost inextricably interwoven; so that even the deftest attempts to unpick and re-weave the political threads are bound to damage the whole texture of our social life most barbarously. The sequel to our light-hearted political re-mapping of the world in 1919-20 surely shows that territorial revision ought to be regarded as being strictly an *ultima ratio*. It goes without saying, moreover, that if any cases come up for revision, they will necessarily be examined not on *a priori* grounds, but in a concrete common-sense way on their own individual merits, in the light of all the relevant considerations, linguistic, economic, historical, emotional and strategic.

At the moment of writing we can only guess which particular cases are occupying the attention of the Powers —it may even be that before this article reaches the reader the negotiations will have broken down. But the fact that they are taking place brings the Versailles territorial settlement and the various problems to which it has given rise once more into the foreground. In the section that follows we propose to describe these questions.

II. The Problems of the Territorial Settlement

PERHAPS the most prudent way of approaching the difficult problems is to glance at the less contentious provisions of the settlement. Alsace-Lorraine, of course,

is now a settled question. In the Pact of Locarno Germany renounced all pretentions to sovereignty over these provinces. The Alsatians, it is true, speak German and are racially of the same stock as the people on the other side of the Rhine. They are also quite naturally finding some difficulty in reintegrating themselves into France. But the Germans themselves have never ventured to suggest that they are now looking back wistfully to their half century's experience of life in an Alsace which was a German *Reichsland*. Alsatian discontent in its extreme form has rather taken the direction of a desire to become an independent neutralised State like Switzerland, belonging neither to France nor to Germany. To-day the current controversies over local self-government in Alsace, and over the local relation between State and Church, belong to the domestic politics of France.

Another territorial arrangement made in the settlement of 1919–20 which is looked upon as non-contentious, is the transfer of Northern Slesvik, by the post-war plebiscite, from Germany to Denmark. For Denmark, in the Paris peace settlement, showed herself a paragon of good sense. She had a prospect of obtaining, at the hands of the victorious Allied and Associated Powers, a considerably larger slice than she has actually accepted of the territories that were taken from Denmark forcibly by Prussia in the war of 1864. Yet, in this situation, the Danes were wise enough neither to think in terms of " historic rights " nor to feel in terms of revenge. They realised that the disaster of 1864 had come upon them because, in the peace settlement of 1814–15, they had been cajoled into accepting the German territories of South Slesvik and Holstein in compensation for the loss of Norway (which was transferred in 1814–15 from Denmark to Sweden in order to compensate Sweden, in her turn, for the cession of Finland to Russia). In 1919–20, the Danes were determined not to repeat the mistake of a century before; and they therefore refused to take back from Germany any part of Slesvik in which the

local population did not declare its wish to be re-transferred from Germany to Denmark in unmistakable terms in a properly conducted plebiscite. These were the circumstances in which the present " post-war " frontier between Denmark and Germany was drawn.

Eupen and Malmedy are in the same position as Alsace and Lorraine. Under the Treaty of Locarno Germany voluntarily accepted the territorial position as between herself and Belgium fixed by the Treaty of Versailles. The grounds on which Eupen and Malmedy were transferred to Belgium were that, although five-sixths of the joint population of 60,000 were German speaking, the majority were held, in origin, to be French speaking Walloons, only Prussianised as a result of having been taken from Belgium and assigned to Prussia in 1814–15. (About 94 per cent. of the inhabitants of Malmedy were still French speaking.) The people of the two districts were allowed by the Treaty to record their wishes in a register kept open for six months, but only 271 declared for remaining with Germany. The Germans lodged a protest on the ground that signature, being public, led to intimidation, but it was disallowed by the Council of the League. The annexation was finally declared in 1925. Germany has twice offered to buy the districts back, once in 1926, and again in 1929, but without result.

We now come to a more contentious question—a big irridentist claim—the case of the Bohemian Germans, who, in spite of their language and their nationality, and their strongly expressed German national sentiments, were transferred in the peace settlement from pre-war Austria to the newly created " succession State," Czecho-Slovakia. The German contention is that these Germans, who inhabit the region adjacent to their own frontier, should be incorporated in the Reich. To hand over some three million Germans to Czecho-Slovakia was certainly a strong measure. The new State was thus saddled at birth with one alien minority which (apart from the Hungarian and Ruthene


Stockholm
DENMARK
Copenhagen
Baltic
Memel
LITH
Gdynia
Königsberg
East Prussia
Sles
KIEL CANAL
Hamburg
Elbe
Berlin
HOLLAND
BELGIUM
Brussels
GERMANY
Cologne
Oder
Warsaw
Saar Basin
FRANC
Danube
Munich
Basle
AUSTRIA
Budapest
HUNGARY
SWITZERLAND
Geneva
Turin
ITALY
Lagosta
MONTENEGRO
ALBANIA
1
2
3
4
5
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21



1. Alsace-Lorraine—to France (T. of V.).*
2. Saar Basin—under governing commission appointed by L. of N. until 1935, when a plebiscite will be held. Mines ceded to France till 1935.
3. Eupen and Malmédy—to Belgium (T. of V.), confirmed after plebiscite by L. of N.*
4. Demilitarised zone.
5. Slesvik—plebiscite 1920, north part to Denmark.
6. Kiel Canal—internationalised (T. of V.).
7. Polish Corridor—from Germany to Poland (T. of V.).
8. Danzig—free city under High Commissioner of L. of N. (T. of V.).
9. Memel—to Lithuania (Conf. of Ambassadors) 1923 Confirmed by L of N. 1924.
10. Vilna—by Russia to Lithuania July, 1920, seized by Poles Oct., 1920. Boundary defined by Conf. of Ambassadors, leaving Vilna to Poland 1923.
11. East Prussia—plebiscite 1920, retained by Germany.
12. From Russia to Poland, boundaries defined except to East (T. of V.).
13. To Poland after Russo-Polish war (Tr. of Riga 1920).
14. To Poland, and Eastern Boundary defined (2nd Tr. of Riga 1920).
15. Poland—independence proclaimed 1918, recognised T. of V. Minority population under protection of L. of N.
16. Bohemian Germans.
17. Silesia—plebiscite 1921, dotted part to Poland.
18. Teschen, Otava and Zips—part to Poland and part to Czecho-Slovakia after plebiscite 1920.
18A Burgenland—plebiscite 1921, final award L of N. 1922 to Austria.
19. From Austria-Hungary (T. of St. G.).*
20 Austrian Tyrol—to Italy (T. of St. G.).
21. To Italy (T. of St. G.).
22. Fiume—Free State T of Rapallo 1920, to Italy by Italian-Jugo-Slav Treaty 1923.
23. Croatia—to Jugo-Slavia from Austria-Hungary (T. of V)
24 Transylvania—from Hungary to Rumania (T. of Tr.).* Hungarian-Rumanian disputes 1923–27–28.
24A. Minority under supervision of L. of N.
25. Bessarabia—from Russia, 1920.
26. Demilitarised zone (Tr. of Lausanne 1923).
27. Minority population under supervision of L. of N.
28. Macedonian Bulgars.
29. From Bulgaria (Tr. of Neuilly 1919).

Besides the above changes, Estonia, Latvia and Lithuania, formerly parts of Russia, declared their independence 1918; boundaries settled 1920 by agreement. Lithuania-Polish frontier settled by Conf. of Ambassadors 1923.

* T. of V.=Treaty of Versailles 1919.
T. of St. G.=Treaty of St. Germain 1919.
T. of Tr.=Treaty of Trianon 1919.
L. of N.=League of Nations.

minorities on the opposite flank) amounted to nearly a quarter of its total population. This was hazardous when the political strife between Germans and Czechs in Bohemia had been one of the chief standing political troubles of pre-war Austria for half a century. The act was defended, during the Peace Conference, on the ground that, if the German fringes of Bohemia were cut away, Czecho-Slovakia would be rendered geographically, strategically and economically, incapable of leading a genuinely independent national existence. She was therefore given the old frontier of Austria *vis-à-vis* Germany in Bohemia, and twelve years' experience has proved the inclusion of these three million Bohemian Germans in Czecho-Slovakia to be politically workable, contrary to all the evidence of pre-war history, a fact which speaks well for the self-restraint and positive political ability of the Czechs. Nevertheless, Czecho-Slovakia is at the moment confronted with the danger of these northern Germans becoming Nazis and recognising Herr Hitler as their chief. Naziism has already made considerable headway among them.

Next, we may consider certain possible revisions which, however just in themselves, have been objected to on the ground that they could not be put into practical effect without incidentally producing or reviving other injustices which would be equal or greater.

For example, the extreme south-eastern corner of Transylvania is inhabited by a compact population of Magyars, several hundred thousand strong (the so-called Szeklers), who have genuine grievances against the Rumanian rule to which they have been subject since the peace settlement, and who ardently desire to be reunited with their Hungarian mother country from which they were then forcibly detached. The trouble is that these Szeklers could only be reunited politically to Hungary at the price of forcibly detaching from Rumania, and re-subjecting to Magyar rule, a considerably larger number of Rumanians who were liberated in the peace settlement, and who are just

as anxious to remain citizens of post-war Rumania as the Szeklers are anxious to return to the bosom of Hungary. Since the Szekler country happens to lie at the very geographical centre of post-war Rumania, it would hardly be feasible to make this Szekler country into a detached enclave of territory under Hungarian sovereignty, on the analogy of East Prussia and Germany—even if the East Prussian arrangement had worked well enough to be an encouraging precedent! The only possible amelioration of the peace settlement that has been suggested, *à propos* of these Szeklers, would be for the world to persuade Rumania, as she values cordial relations with her neighbour, Hungary, to grant them some measure of local self-government under Rumanian sovereignty.

The Germans in East Prussia are not so badly off as the Szekler Magyars in Transylvania because East Prussia has, after all, still been left as a part of Germany, under German sovereignty and government, though it is divided from the main body of Germany geographically by a piece of territory under Polish sovereignty. The Germans demand—and have demanded insistently ever since the peace settlement—that the territorial continuity of Germany on the political map shall be restored by replacing the Polish corridor between East Prussia and the rest of Germany under German sovereignty. The trouble here is that this corridor is to-day inhabited by a mainly Polish speaking population which wishes to remain under Polish sovereignty; so that the German demand for its restoration could only be satisfied by replacing under German sovereignty some hundreds of thousands of Poles who are vehemently opposed to the change, Polish experience of German rule before the war having been extremely unhappy.

All the same, we cannot simply dismiss the German demand for treaty revision in the Polish corridor, for twelve years' experience has shown conclusively that, as a matter of fact, this is really one of the places where the "shoe pinches" and we will return to it on a later page. On the

same showing, the shoe also pinches in territories that were transferred from Germany to Poland in Upper Silesia; in the territories transferred from Hungary to Rumania and Czecho-Slovakia; in Bessarabia, which was transferred from Russia to Rumania; in Jugo-slav Macedonia, whose Slavonic inhabitants are Bulgars and not Serbs in national feeling; in the Vilna district, which is reclaimed from Poland by Lithuania; and in the vast White Russian and Ukrainian territories which are now under Polish rule.

For various reasons, a number of the items in this list are not "practical politics." For example, the Ukrainian and White Russian subjects of Poland who wish to escape from Polish rule assuredly do not want the only alternative which seems at present to be practicable: *i.e.*, to fall out of the frying pan into the fire by joining their fellow nationals who are under the dominion of the Soviet Government. Again, the cases of Russia against Rumania over Bessarabia, and of Lithuania against Poland over Vilna are juridical rather than substantial. The complainants rightly object to the methods of violence by which the Poles seized Vilna and the Rumanians Bessarabia, but the fact remains that Bessarabia is not inhabited by Russians, nor Vilna by Lithuanians. The majority of the inhabitants of Bessarabia are Rumanians, while Vilna is a Jewish city in a White Russian countryside. As for the Macedonian question, it could hardly be solved except by the entry of Bulgaria herself into a greater Jugo-Slavia which had been transformed from a unitary into a federal State.* And as for Upper Silesia, this is essentially an economic problem which can never be solved by re-drawing political frontiers, but can only be solved by a thorough-going economic

* The transformation of Jugo-Slavia from a centralised State under Serbian domination into a federal union, in which the Croats and the Macedonian Bulgars, as well as the Serbs, would have their own local self-government is now the policy of almost all parties and peoples in Jugo-Slavia, including the large Serbian elements in the territories formerly belonging to the old Hapsburg monarchy. This is the policy for which the Croat leader, Dr. Matchek, has just been sentenced.

concordat between Poland and Germany. What is wanted there is an invisible frontier, like the Franco-Belgian frontier in the neighbourhood of Lille and Roubaix.

We are left, then, with three main points in Europe which might be placed on the agenda of the Powers. These sore points are, first, the Polish corridor and Danzig; second, the frontier between Hungary and Rumania (except, probably, the question of the Szeklers in the heart of post-war Rumania, which we have dealt with already); third, the frontier between Hungary and Czecho-Slovakia. Let us deal with the two relatively simple Hungarian cases first. We can deal with both together, because they are in essence of the same kind.

As between Hungary and Czecho-Slovakia, and between Hungary and Rumania, there appears to be a real possibility of helpful frontier rectification, with a minimum amount of social disturbance. A reconsideration of these two particular frontiers would seem, moreover, to be practical politics. The wise and courageous Czech statesman, M. Benesh, has just, in a public speech, himself admitted the possibility of "a small adjustment of frontiers" on certain conditions,* and has coupled it with the suggestion that this might bring about a reconciliation between Hungary and the three succession States of the defunct Hapsburg monarchy which now constitute the Little Entente. The entry of Hungary herself into the Little Entente was even hinted at by M. Benesh. It is interesting to speculate on the effect that such a step would have on the political and economic situation in central Europe. The example might even tempt Austria.

The case that is put forward for boundary revision is as follows. In the drawing of these two difficult frontiers at the Peace Conference, a considerable injustice was, it is claimed, done to Hungary because, on almost every debatable

* The conditions were: (1) no outside pressure; (2) mutual accord of the countries concerned after a period of peaceful co-operation without threats, pressure or blackmail on one side or the other; (3) adequate compensation.

point, where it was a question of striking some compromise between the nationality map and the economic map, the arbiters gave the benefit of the doubt to the allied succession States, and thereby penalised the enemy State, Hungary. Taken in itself, each of these local injustices was neither flagrant nor deliberate; but the total mounts up to a large and indefensible injustice in the aggregate. Now that the distinction between ex-ally and ex-enemy has happily been dropped by common consent, the time might be considered ripe for reconsidering these two frontiers in a more objective and conciliatory spirit than could be conjured up a dozen years ago. If the attempt was made, it would be found that quite a lot of useful cheeseparing could be done which would restore many hundred thousand Magyars to their mother country without inflicting any comparable loss upon Czecho-Slovakia or Rumania.

Within the limits of an article like this it is clearly impossible to survey the possibilities of rectification in detail along these two frontiers, but the following instances will serve to show the sort of lines that it would follow. We must be content with giving one sample of a rectification that could be made, and one sample of a case in which the post-war frontier would almost certainly be left as it is. One obvious rectification along the Hungarian-Czecho-Slovak frontier would be the retrocession to Hungary by Czecho-Slovakia of the Grosse Schütt : an island between the main stream and a side-arm of the Danube which is inhabited exclusively by Magyars. The island was given to Czecho-Slovakia in the peace settlement in order to make the main stream the frontier ; but this is of no substantial advantage to Czecho-Slovakia since in any case both banks of the Danube are under Hungarian sovereignty a little lower down. The retrocession of the Grosse Schütt is evidently the sort of frontier rectification which could be carried out. On the other hand, it would surely be unjust to Czecho-Slovakia to ask her to retrocede to Hungary the river port of Bratislava which stands on the north or

Czecho-Slovak bank of the Danube just above the point where the river divides to encircle the Grosse Schütt; for this river port is not only vital to Czecho-Slovakia's economic wellbeing, it has actually been created, since the peace settlement, by Czecho-Slovak enterprise with Czecho-Slovak capital to serve essential Czecho-Slovak purposes. This is a case in which the *de facto* situation since the peace settlement has genuinely changed in harmony with the new political map. Even if the pre-war Hungarian town of Poszony had been inhabited by Magyars, there would be no case for retrocession here, since the pre-war population of the place has been peacefully and legitimately swamped by the post-war influx of Czechs and Slovaks into the new Czecho-Slovak river port of Bratislava. As a matter of fact, this post-war Bratislava was only pre-war Poszony in name, for that Magyar name masked the identity of the historic German town of Pressburg. The real fact is that a mediæval German city of Pressburg under Hungarian rule has been transformed into a modern Czecho-Slovak river port of Bratislava under Czecho-Slovak rule. It will be seen that the case for the retention of Bratislava by Czecho-Slovakia is quite as strong as the case for the recovery of the Grosse Schütt by Hungary.

A fortiori, for the analogy brings us back to the Polish arguments with regard to the corridor, Poland would seem to have a strong case for retaining the sovereignty over the new seaport of Gdynia which she has built and equipped—literally out of nothing—on the short stretch of Baltic coast which was assigned to Poland in the peace settlement. For this seaboard, between the main body of Germany and the free State of Danzig, on which the Polish port of Gdynia stands to-day, is inhabited by a Polish population, and a continuous belt of territory mainly, it is pointed out, inhabited by Poles, stretches away from Gdynia into the interior of Poland in that corridor, under Polish sovereignty, which now intervenes between the main body of Germany and East Prussia. In this statement of the Polish

case for the retention of Gdynia we have gone to the heart of the Polish corridor problem : the sorest, and at the same time the most difficult to heal, of all the sore places on the post-war political map of Europe. The problem is indeed the most intractable of those which have arisen out of the peace settlement. Nowhere else is national pride involved on both sides to the same extent, and the parties to the dispute are both great nations. One of them, Poland, is fully armed and has powerful friends, the other, Germany, is potentially a first-class military Power. Neither side has shown the smallest sign of any disposition to compromise with regard to their respective claims.

The Polish claim has its roots in history. The history of the corridor question goes back indeed to the thirteenth century of the Christian era, when the Polish principalities in the future corridor, Cujvia and Masovia, were—and had already been for two hundred years—an integral part of western Christendom like the German countries to the west of them, while Prussia, east of the corridor, was still a pagan country beyond the pale. A Christian Polish prince called in the German crusading order of the Teutonic Knights to extirpate the heathen Prussians (who were neither Poles nor Germans, but Lithuanians). The knights succeeded in the enterprise, and filled up the conquered and depopulated Prussian territory, on the far side of Poland, with Christian German settlers. Thereafter the Teutonic Knights sought (as the Germans are seeking now for the third time) to link up this new outlying German colony beyond Poland with the main body of Germany by annexing the Polish territory that now intervened, no longer between a Germany and a Lithuanian Prussia, but between a Germany and a Prussia which had become a German enclave. But the Teutonic Knights did not succeed in dealing with their relatively civilised Polish fellow-Christians as they had dealt with the primitive Prussian heathen ; and their struggle with the Poles ended, after nearly two centuries, in the political recovery of the Polish corridor by the Poles,

who had also continued, even under German rule, to occupy the soil. The Polish corridor, it is pointed out, was Polish in sovereignty, as well as in population, from 1466 to 1772, and it remained mainly Polish in population when it fell under German sovereignty for the second time between the first partition of Poland in 1772 and the peace settlement of 1919-20, though the German population increased under German rule. To-day the corridor is Polish in sovereignty as well as mainly Polish in population again. In the light of this history, an attempt to solve this problem by simply replacing the Polish population of the corridor under German rule would, it is argued with undeniable force, be unjust. The very word "corridor," the Poles assert, gives an undue impression of narrowness; that access to the sea, both by rail and by the Vistula, is vital to them, for nearly 70 per cent. of their trade now goes by sea. If it had to go through Germany it would, they say, mean domination by Germany again, and a German Danzig would block the Vistula and threaten their railway communication with Gdynia.

The German contention is as follows: The country occupied by the corridor has been part of Germany for nearly 150 years, and this—the period of progress and invention—should count for more than all the centuries of stagnation that went before. They claim to have made the country by the improvements they introduced during this period, and anyhow, they say, the fact that they were the last holders, and holders for so long a period, is a vital point in their favour. They remind us that the transfer to Poland has cut in two the proudest part of their country. It cut, moreover, right across the old east and west communications and played havoc with them. There is through passage for certain purposes, but facilities are not what they were, and, whatever the Poles may say, they are still very unsatisfactory. Merchandise and goods that used to come by the old routes across East Prussia are now all taken round by the corridor. Everything is passed through that neck, the old markets are disorganised, and East Prussia has lost

her natural hinterland. Her inhabitants ... have
the access they used to enjoy to the
for though it forms the real fr
a narrow strip along the ri
and the inhabitants of East
at one single point. As f

To get to the river for ... purposes passports are ever where necessary.

Germans say that, if the corrido ... to-day, that is because the Poles have made it so—it is their policy to make sure that it shall be as little German as possible.

It is only fair to say that in this the Poles have taken a leaf out of the German book. Before the war, a systematic effort was made to plant German Poland with German colonies. The Germans further say that the Slav population includes a substantial number of Kaschubs who are not Poles at all. Danzig is a German city, and Gdynia was, they say, deliberately established to steal the Danzig trade, and to make the Polish claim to the corridor impregnable.*

Such are the rival contentions. We have already disclaimed any intention of attempting to put forward solutions for these problems. One suggestion we have seen, in so far as the corridor is concerned, is that some sort of two-way corridor should be established, in which both parties would have equal rights and facilities for communication. Danzig would presumably be free to go back to Germany and Poland would retain Gdynia.

It is clear that the Polish corridor problem is the most difficult of the territorial arrangements which may be brought up for reconsideration. And to add to its complexities, there is to be a general election in Danzig on May 28. A Nazi victory—and Naziism, as recent events have shown, has spread to Danzig just as it has over the

* The population of Danzig is 407,567; roughly 95 per cent. are Germans Satisfactory statistics of the population of the corridor at different times are hard to find. They should accurately reflect the policy of encouraging its own settlers and discouraging members of the other race pursued by each country in turn. Such figures as are available are appended.

Bohemian frontier—would undermine the position of the present régime.*

So much for the corridor and Danzig, but there is another problem equally dangerous and complex—that of the *Anschluss*, the union of Germany and Austria, which is the declared object of the Nazis in both countries. It is not, strictly speaking, a question of territorial revision at all, but no description of revision problems would be complete without some account of it, and it is closely bound up with one of them. A union between Germany and Austria can only take place under the Peace Treaties with the consent of the Council of the League of Nations, and the *Anschluss* problem will at this moment necessarily be much in the minds of the negotiating Powers, though it does not follow that it will figure on their agenda. The union would, it is claimed, in no way infringe the principle of national self-determination—the Germans and Austrians are members of the same race, and the Holy Roman Empire and the German Confederation both included Austria. From the economic standpoint, too, the union has much to recommend it; but there are grave political obstacles to its consummation. For easily intelligible reasons, a united Austria-Germany has always been the *bête noire* of many other nations and is now more so than ever since the Nazi revolution in Germany. Czecho-Slovakia, for instance, would be ringed in by potential enemies on every side, except on her Polish border and the short strip of her Rumanian frontier, if the union should take place—the very suggestion of a revision conference has been enough to make the Little Entente close up its ranks in alarm. Italy, too, is deeply concerned. Mussolini, of recent years, has been found in so many controversies on the side of the ex-enemy Powers, that it has sometimes been assumed that he would assist Germany and Austria to unite, in return, it might be, for support for his plans in south-

* Danzig is a self-governing free city under a High Commissioner appointed by the League of Nations. It forms a small enclave in the extreme north-east of the corridor.

eastern Europe. But there is another aspect of the matter. Could Italy regard with equanimity a change that would create a greater Germany, and bring its frontier right up to her Tyrolese border, to the scene of perhaps the most questionable of the territorial alterations effected by the Peace Treaties which, in order to give her the frontier she required, handed over to her three-quarters of a million of unwilling Tyrolese Germans ? Recent events, moreover, have changed the outlook. Italy has to consider what her line would be if it came to war again in Europe.

But, whatever the attitude of the Powers to this question, an effort might be made to take it out of their hands. Naziism, like communism, takes no heed of national frontiers anywhere where it can find German minds to work upon. The present Government of Austria is making a gallant stand to preserve its independent existence, but a Nazi *Putsch*—with help from over the border—might bring Austria as much under the control of Berlin as outer Mongolia is under that of Moscow. It is claimed that one-third of Austria is Nazi to-day. There need be no infringement of the Treaties, for Austria might still nominally remain a separate State, but the union would be none the less effective on that account, and it would mean control of the machinery of government, not merely personal allegiance as in the case of the Bohemian Nazis. For the Nazi party is one and indivisible, and it would, after a successful *Putsch*, itself constitute the State in both countries, recognising a single chief, Herr Hitler.

Lastly, there are the colonies.* The Germans have always indignantly repudiated the aspersion cast on their methods by M. Clemenceau's letter covering the peace terms. They demand overseas outlets for their people and sources from which they can obtain their own raw materials. Agitation has tended to concentrate especially on Tanganyika. The strongest objections made to the German demand

* A list of the German colonies and the countries entrusted with mandates is set out in the appendix.

are not imperialistic. They are based on the interests of the indigenous population, and they take the following form. Is it fair, after thirteen years, once again to hand over millions of natives from one Power to another, especially to one with the aggressive militarist ideas of Nazi Germany? As things are at present, there would at least be a prospect of keeping Africa out of the maelstrom, if unhappily another war should come. Could that be expected with Germany back in Africa to-day? Is it indeed conceivable that Nazi Germany would submit to mandate conditions even in time of peace?

APPENDIX

I. Population of the Polish Corridor at Various Times.
(previously West Prussia) excluding Danzig

Authority	Date	Nationality	Numbers
German Census..	1910 ..	Poles	439,014
		Germans	421,033
		Kaschubs	113,719
		Bi-lingual	15,702
		Miscellaneous . ..	677
		Total	990,145
Polish Census ..	1921 ..	Poles	754,907
		Germans	184,588
		Total	939,495
German version of figures ..	1921 ..	Poles	438,769
		Germans	418,107
		Kaschubs . ..	87,847
		Total	944,723
Polish Census ..	1931 ..	Poles	976,563
		Germans	109,686
		Total	1,086,249

A German estimate in 1927 put the German population of the Corridor at 110,000. The population of Danzig to-day is 407,567. The composition roughly is, Germans, 95 per cent.; Poles, 3½ per cent.; other nationalities, 1½ per cent.

II. German Colonies and Countries to which they were assigned under Mandate

Colony	Mandatory Power
Togoland and Cameroons ..	France and Great Britain. The larger parts of these territories were allocated to France.
German East Africa (now known as Tanganyika)	Great Britain
German South-West Africa ..	The Union of South Africa
The German Samoan Islands .	New Zealand
Nauru	British Empire. The Administration is vested in the Governments of Australia and New Zealand, together with the United Kingdom The Australian Government was appointed to administer the island. Matters of major policy are referred to all three Governments.
The other German Pacific Possessions south of the Equator (excluding the German Samoan Islands and Nauru, and including German New Guinea) .	Australia
German Islands north of the Equator	Japan
Ruanda and Urundi in the North West of German East Africa ..	Belgium

THE POOR WHITE IN SOUTH AFRICA

THE CARNEGIE COMMISSION REPORT

THE poor white has for many years been the skeleton in the cupboard of the European family in South Africa, and for nearly as many years one section of the family has been telling the other what should be done about it. As a rule, people too have been more ready to prescribe remedies for the evil than to inquire how and why the evil has come to be what it is.

A thorough investigation was made possible recently by the generosity of the Carnegie Corporation. The main function of the Commission, which was appointed in 1928, was one of fact-finding. It had to make a diagnosis of the problem of the "poor white" and it was only incidentally concerned with remedies. This was a wise provision, because in this way the Carnegie Commission's Report stands a chance of escaping the fate of other excellent reports which have been primarily concerned with the proposal of remedial measures, and failing to fit in conveniently with the policy of the party in power, have been pigeonholed. The country in such cases has lost what is generally the most valuable part of such reports, viz., the diagnosis or fact-finding work involved.

Though the Poor White Commission enjoyed the cordial co-operation of all government departments, it was not a government commission. The fact that it was an independent investigation, carried on in the spirit of scientific research, greatly enhances its value. Moreover, the Commission did not sit formally round a table receiving evidence in the usual way. It went out after the poor white and studied him in his natural habitat—on the farm, in the cities, on the diggings, on relief works, and in the poor white settlements under the church and the State Departments of Labour, Lands and Forestry.

We visited (so runs the report) the poor whites in their homes, we saw them at work or in idleness and listened to their stories of

stress and vicissitude. Thus we collected hundreds of bio graphies and case histories, which we generally checked by interviewing the local minister, teacher, shopkeeper, attorney, doctor, policeman, etc. . . . This method necessitated our travelling continuously for over a year and covering about 30,000 miles, mostly by car.

Besides using this method of the personal interview the Commission sent elaborate questionnaires to various types of institutions, including fully half the schools in the Union. Standardised mental and scholastic tests were given to about 20,000 children, including over 3,000 poor whites, with a view to getting a more or less objective measure of the intelligence and educational level of the various sections of the population.

The form of the report is also to a certain extent unique in that it is published in five separate volumes,* wherein each member of the Commission has dealt with the problem from his own particular angle. Each volume, however, contains a summary of the joint findings of the whole Commission.

So much for the aim and method adopted. As regards the findings, one of the main points made by the Commission is that

The problem of the poor white should not be treated as an isolated phenomenon, but rather as the acute manifestation of influences and conditions generally prevalent in our social structure. . . .

* Vol. I. *Economic Report:* Rural Impoverishment and Rural Exodus (245 pp.), by Dr. J. F. W. Grosskopf, Professor of Agricultural Economics, University of Stellenbosch.

Vol. II. *Psychological Report:* The Poor White (206 pp.), by Dr. R. W. Wilcocks, Professor of Psychology, University of Stellenbosch.

Vol. III. *Educational Report:* Education and the Poor White (364 pp.), by Dr. E. G. Malherbe, Director, National Bureau of Education, Pretoria.

Vol. IV. *Health Report:* Health factors in the Poor White Problem (154 pp.), by Dr. W. A. Murray, Union Department of Public Health, Pretoria.

Vol. V. *Sociological Report:* (a) The Poor White and Society, by Rev. J. R. Albertyn; (b) The Mother and Daughter in the Poor Family, by Mrs. M. E. Rothmann, B.A. (217 pp.). (Published by the Pro Ecclesia Drukkery, Stellenbosch.)

The Evolution of the Poor White

Rather than calling poor whiteism a disease, it will probably be nearer the truth to speak of it as a *symptom* of a disease . . . which affects our whole social organism. . . . Any measures which succeed in toning up the health of the whole body politic, socially and economically, will in that same proportion diminish the symptom of poor whiteism.

Though for statistical purposes, *e.g.*, when applying psychological and other tests, the Commission defined a poor white as " an impoverished white person of rural origin," and included under that category chiefly poor *bywoners* (tenants-at-will), hired men on farms, owners of dwarf holdings, or of small undivided shares of land, poor settlers and the growing group of unskilled or poorly trained labourers and workers outside farming, the investigators all emphasise the fact that the poor white is not a class apart in the " caste " sense.

Moreover, owing to the difficulty of defining precisely the term " poor white," the Commission did not make the poor white as such its chief object of study. Rather, it concentrated upon the study of the process which has produced poor whites in the past and is producing them in increasing numbers to-day.

I. The Evolution of the Poor White

THE term " poor white " was written in inverted commas for the first time in 1892, indicating that in the early 'nineties people were already becoming conscious of the poor white as a problem. From about 1880 the discovery of diamonds and gold, the capitalistic exploitation of mines, the influx of immigrants with the modern business outlook and the rapid penetration of the country by railways forced the development of South Africa into new channels. From 1890 onwards the older white settled population was faced with entirely changed conditions. A rapid economic transition took place from the old patriarchal

régime to the modern commercial and industrial order.

Economic conditions during the first two hundred years of South Africa bred the pioneer, or *voortrekker*, chiefly a pastoral type, with whom the main economic motive was the opening up and occupation of new land. This economic motive was at work as early as the latter half of the seventeenth century among the first generation of European settlers at the Cape. Influenced by certain non-economic factors, it worked at greater speed during the time of the Great Trek (1835–38), when the Transvaal, the Orange Free State and Natal were opened up, and it is still a driving force in some parts of the northern Transvaal. Land was plentiful in the early days, farms were large. The sons of farmers could either live comfortably on the same farm or go farther north to seek pastures new. There were hardly any obviously poor people in those days, and the few temperamentally shiftless or with low intelligence could always reckon on the hospitality of the farmers to provide them with a livelihood in return for odd jobs on the farm. Game was plentiful, and those who did not have cattle were never short of meat. The wealth of the farmer lay in his cattle and sheep. He was primarily a pastoralist. The little agriculture that he practised was merely for his own consumption. In this way the pioneer type was created. With his Bible as the only instrument of culture, with his gun to protect him against the savages and to shoot game, and with a plough as the instrument for breaking new land, he was perfectly adjusted to his environment. His life was simple, his needs few. He was religious, fairly honest, independent and rather self-satisfied.

This we may designate the patriarchal stage. With the increase of the population and a check to the possibilities of acquiring new land, this stage was bound to come to an end. The transition stage set in. Adjustments had to be made. Those with capital or education or intelligence

above the average made the adjustments successfully. Those who lacked these advantages were soon adrift. The sub-division of farms (where some got less than a 1,000th part of the original farm) worked the undoing of their numerous descendants. On the one hand, farms were overstocked and the pastures ruined beyond redemption by erosion and other damage. On the other hand, there was the frequent intermarriage of near relations in order to keep the land in the family, and in many cases mental and physical deterioration resulted. Here, then, is an end to the desire for land and more land as the chief economic motive. Those who clung most tenaciously to the old tradition suffered most. The descendant of the voortrekker who failed to adapt himself to changed circumstances is now adrift, not knowing where to go. His little piece of land, inherited from his father, is too small. He mortgages it and loses it. He does not know a trade; the education that once sufficed for his grandfather does not assist him in analysing the process of which he is the victim; he can see no escape. He becomes a bywoner (or squatter) on another man's farm, and with the unsatisfactory and loose terms of leasehold obtaining under the bywoner system, has little hope of ever finding his feet again. Here, then, is one of the first links in the long chain of causes that have produced the poor white.

The transition was one also from a system of subsistence economy to one of cash economy. New times also demanded new methods of production in agriculture. When labour was plentiful, markets distant and the ox-wagon the only means of transport, the farmer's agriculture was sufficient only for his own needs. This tradition bred inefficient methods of farming, which, when tried later on for production on a large scale for marketing, have proved uneconomical. Here the bywoner is again the victim. The farmer desiring to put more land under cultivation finds that there is less room for bywoners than before, and tells some of them, usually the weakest, to go. Where now? To the city?

No, not yet. *He is still afraid of the strangeness of the city.* Most people speak English in the city. He does not speak it very well. Neither does he know what to do in the city. *All these things contribute towards creating in him a feeling of inferiority. He is diffident about going,* and hovers around the countryside, flitting from farm to farm, until through some friend in the city he hears that work can be found there, and with that friend as his only sheet anchor he betakes himself to the city, where new, and often more difficult, adaptations are demanded of him.

But the farmer himself is also in danger. Owing to his ignorance of marketing principles, he sells his produce to the local storekeeper at a ridiculously low figure. The very qualities of independence and self-confidence which stood his ancestors in such good stead militate against him at a time when his only salvation lies in co-operation. He is puzzled by the new commercial methods. He suspects some form of *verneukery* (sharp practice), tries a little of it himself when he can, and generally comes off second best. On the whole he clings to his old methods. There he still feels fairly safe, but none the less he is marked for destruction by the same ruthless economic forces that have brought the bywoner to his farm.

Immigration, which brought in English and Jews who were more *au fait* with the new (commercial) methods, further complicates the situation for him, and he is left behind in the race. So precarious indeed is the economic footing of a large number of such farmers, that it only needs some movement of catastrophic nature, such as cattle disease, a drought, or a war—of which South Africa has had more than her due share in the past—or any other novel situation which needs rapid adjustment, to precipitate considerable numbers of them from the owner class into the bywoner class.

Such in broad outline has been the evolution of the poor white. He is recruited mainly from the older section of the European population, *i.e.*, those of Dutch-French-German

extraction, and is to-day mainly *Afrikaans* (South African Dutch) speaking. This is no doubt due to the circumstance that until recent times about 80 per cent. of the rural population was Afrikaans speaking and the poor white problem is essentially an agrarian question. There is, however, a small admixture of English and Irish descent amongst the poor whites. The Commission mentions over 200 British family names among Afrikaans speaking poor whites, and does not claim that the list is exhaustive. Professor Macmillan in his recent book, *Complex South Africa*, also refers to the surprising number of poor whites, descendants of Englishmen, who have been absorbed in the Afrikaans speaking population. As one of the investigators puts it :—

It is not as if any of the two white races has a monopoly of the original sin. It is rather that, side by side, Britisher and Boer were caught in the same economic maelstrom, which is blind to the very arbitrary distinctions of nationality. Wherever they were slow in adapting themselves, they became victims of the same economic Nemesis, irrespective of language or creed or colour. I add the last word "colour," because, as I motored through the native areas and noticed the closely settled land and badly worked fields of the Kaffirs, the thought came to me that, in less than 50 years' time, the Carnegie Corporation will perhaps feel it incumbent upon them again to appoint a Research Committee, but this time to investigate the causes of the Poor Black Problem—a problem which may prove to be very black indeed, because I have not the least doubt that if things are allowed merely to drift, the natives will, if they are not already, be even worse victims of the same ruthless process.

The truth of this last point is borne out conclusively by the Native Economic Commission's Report.*

II. Peculiar Conditions

IT might be contended that other countries have passed through similar economic transitions and yet we do not hear of their having a poor white problem. The Com-

* See The Round Table, No. 88, September 1932, p. 90c.

mission meets this question by pointing out that there are certain conditions which are more or less peculiar to South Africa.

The first is the presence of the South African native. In the circumstance that the European population lives in close contact with an overwhelming black population is to be found the *raison d'être* of the very term, poor white. The only other country where a similar class name has been evolved is in those Southern States of America where the white population is in a minority.

Every country has its submerged tenth. Are the submerged 10 per cent. of the South African whites so much worse off economicallly than those of other European nations that on that account alone they constitute a serious economic problem ? To this question the Commission confesses that it is unable to give an answer in the absence of comparative data. The educational investigator who was responsible for the estimate that there were between 300,000 and 400,000 very poor people out of a white population of 1,800,000, an estimate based on the study of 49,434 representative European families over the whole Union, makes the following observation in this connection :

> Now it may be that, because we are a white race living in juxtaposition to native and coloured races, we have distorted ideas as to what constitutes poverty. We may, on account of aristocratic tendencies, be inclined to call a white man poor when we would not call a native, who lives under similar conditions, poor. The lowest economic condition ascribed in popular parlance to a white man is to say "he lives as a Kaffir." Further, what we call poor here in South Africa may not be considered poor in European countries. We do not know for certain. There is no absolute normal or objective scale of measurement. In any case the term "very poor" is circumscribed to mean something fairly definite for South Africa, viz., those who are dependent upon charity for a living, or eke out a miserable existence as bywoners on the farms. I do not think that it was generally realised that in fairly normal times (*i.e.*, before the beginning of 1930) *nearly one-fifth of the European families in South Africa lived in dire poverty.* In some parts of the country the conditions are much worse than in others. In the

north-western Cape (Namaqualand, etc.) the proportion of "very poor" is 33·3 per cent. In the Oudtshoorn section of the Little Karroo, it is 31 per cent. The north-east Transvaal stands at 30 per cent. The northern Transvaal, if Pretoria town is excluded, stands just a little lower than this. On the other hand, the Rand, which is almost purely urban, stands at 11·5 per cent., and the Orange Free State (which includes Bloemfontein) and Natal (the bulk of whose population is urban) stand at the same level, round about 12 per cent.

It is pointed out that these calculations also include many who are not "poor whites" in the sense in which the term is defined above. The definition did not include the regular urban poor classes.

From the above two things are clear. In the first place the poor white obtrudes itself as a problem because of the presence of a majority of blacks living in competition with whites. In the second place, South Africa has a dual economic standard, one for the white man and one for the native.

While the fact that there is the underlying fear that the lower levels of the white population may sink economically below the upper levels and even the average of the native population, may account for the mere name, poor white, it cannot be proved that native competition as such has been in the past a potent direct cause of the actual impoverishment of rural Europeans. It may become a cause in the future, particularly on the unskilled level. But the fact remains that in the Cape coastal regions, and in the Little Karroo from Prince Albert to Jansenville, which may be called the cradle areas of the poor white, there have been hardly any natives.

On the other hand, indirectly, the contact with the native has certainly caused impoverishment. Inefficient methods of farming based on inefficient labour have been perpetuated and the lack of industrious habits has been partly due to a prejudice against certain types of manual labour which are designated as "Kaffir work."

This attitude affects all levels of society, as is

shown by the following quotation from the Ed
Report :—

It is often said that the poor white is lazy. Yes, he is, lazy for the same reasons that many a well-to-do man is la *the absence of a specific stimulus to work* and *to work hard.* have the work done while he looks on, why should he w couple of poor whites were earning 6s. each a day on relie a remote road. They hired a couple of natives to do th 3s. each per day while they (the white men) lazed about s the shade behind a bush. The natives were content with t The work was done. The white men "earned" 3s. eacl Why should they worry? It was good business!

The prosperous business man, who sits at his office desk the bell for Jim Fish, who is working in the yard, to brin spectacles which lie just a little beyond his reach on the his wife, who while sewing drops her thimble, and halloe tones for the little picannin on the other side of the hous and pick it up at her feet, are lazy in exactly the same w poor white, whom they despise as an indolent scoundrel. In one of the recent public examinations in Natal, a s in a science paper was asked in a question on the principl lever to show how he would make use of a crowbar to mo on the roadside. After explaining how he would adjust the so as to get an adequate leverage, he added, "and then I w a native at the other end of the bar to lift the rock." Th trations are symptomatic of the energy-sapping process that on amongst all classes of our white society, due to the fact are a white aristocracy on a big black foundation of nat many cases the native stands, as it were, between the wl and manual labour.

This, of course, was always more the case in the n and eastern parts of South Africa, where the nati more numerous than in the southern parts.

An excellent analysis of the origin of this attitu of the way in which it is rapidly dying out un pressure of economic competition is made in the logical Report.

Regarding restriction of certain work to Europe report says that:

A policy of protection by reservation of work to the E should be treated as merely a measure of transition for

during which the poor white is given the opportunity to adapt himself to new conditions in South Africa. It will be disastrous for the poor white himself if any protection given him is of such a nature that it results finally in impairing his ability to compete with the non-European on the labour market. With a view to the welfare of the poor white the period of protection should be made one during which they are trained to greater efficiency than they often have now, and during which their children are trained to become good and, as far as possible, skilled workers.

If protection takes the form of reserving unskilled or semi-skilled work to the European it is necessary either that (i) wages be paid on a piece-work basis or that (ii) steps be taken to ensure sufficient competition between Europeans themselves, and that continued employment be made dependent on good performance.

If the unskilled or semi-skilled European and non-European labourer compete with each other, *such competition ought, as far as possible, to take place at minimum wages fixed for both on the basis of a reasonable "white" wage.* In so doing the result will depend on how they compare with each other in performances, and not on difference of standard of living. The latter makes the position practically untenable for the European from the very beginning.

This second form of protection would not only serve to raise the standard of living of the non-European, but is, in our opinion, much more likely to remain in force and is thus calculated to serve the interests of the poor white best in the long run.

Practical experience seems to show that even with unskilled work the average poor white is a better labourer than the average native if the European is placed under sympathetic supervision and is given an incentive to improve his performance (*e.g.*, by payment according to piece work).

Besides the presence of the native there are other circumstances which have made the economic and social development of the rural population in South Africa somewhat different from that in other countries. The system of inheritance prevailing amongst the Dutch speaking population to which reference has already been made, has bred thousands of poor whites on the land. The excellent report of the Transvaal Indigency Commission of 1906, of which the present Lord Lothian (then Mr. Philip Kerr) was the principal author, rightly made much of this tradition as a cause of poor whiteism.

It was largely because of the absence of this tradition

amongst the English settlers of 1820 that they escaped the Nemesis which has overtaken the older Afrikaans speaking population of the land. Theirs was an artisan tradition rather than a pastoral one. English boys sought other occupations in industry and commerce and did not, as their Afrikaans speaking neighbours did, remain sitting on the land with their eyes glued to the little bit of it they were to inherit. The influence of isolation and distance can hardly be over-emphasised in this connection.

Droughts, plagues, and events of a catastrophic nature are often named as causes of poor whiteism. According to the report they never were primary causes, but rather aggravating circumstances which put the final touches to a process that was already destroying the people. And then, too, the subdivision and subsequent overstocking of farms led to what has justly been called "man-made-droughts." The influence of malaria and climate in producing economic deterioration has, according to the Health and Educational Reports, been exaggerated in the past, though there seems no getting away from the fact that malnutrition is a very potent factor in bringing about a gradual weakening of the physical stamina of the rural poor.

Closely connected with the above tradition is the fact that South Africa did not have industries to absorb the redundant rural population such as the older European countries, and even America and some of the Dominions, had. It is only in recent years that the rural Afrikaner has found his way into the two main industries of South Africa, mining and the railways. Farming here is an intensely difficult proposition demanding a high degree of what may be called adaptive or directive intelligence. It is the lack of exactly this quality that leads to the undoing of many men on the land—men who, on a routine job in a factory, where little directive intelligence is required, would become useful and successful workers. The psychological tests showed clearly that the poor white deviates less

from the normal in purely mechanical ability than he does in those higher mental processes which require reasoning.

III. A Possible Remedy

THE above are only a few of the main points brought out by this valuable report. It is practically impossible within the compass of a single article to summarise the 1,200 odd pages closely packed with information and interesting discussions. There is much in the report which may make one pessimistic about the future, *e.g.*, the increasing spirit of dependence of the people on State and charitable support. It is specially noticeable amongst that rural section of the population which until a short time ago always boasted of its independence. The dangers of the future lying in the fact that the poorer section, which has become the parasitic part of the population, is multiplying more than twice as fast as the smaller and more intelligent section which have to carry the former on their backs, as it were, are clearly illustrated by interesting figures on differential fertility and by the discussion on the question of birth-control. The abuse of the vote and political pressure which prevent the adoption of salutary measures are frankly discussed by all the members of the Commission. The report states :

> Serious dangers are attached to attempts to improve the economic position of the poor white by the shortest possible way for him in such a manner as to lessen the urge of self-help. . . .
>
> It is a radical mistake for the State, in its attempts to save those classes that are falling behind because of their clinging to primitive and inefficient farming methods, to keep on offering financial assistance every time that distress becomes pressing. It would be hard to find a method more apt to perpetuate an obsolete tradition—and thus to ensure constant repetition of the need for help.

The chief point in the sociologist's report is that there must come a shifting of emphasis from mere relief to service. All methods arriving at the rehabilitation of the

poor white must in the first instance be educative, otherwise they defeat their own ends.

Interesting facts are advanced in the Psychological and Educational Reports with regard to the educability of the poor white. These are distinctly encouraging and may remove the pessimism which other facts tend to inspire. *The average intelligence quotient of the poor white is* about 96. That is less below normal than has been imagined. The bulk of the poor whites fall within the range of normal intelligence, and one-third of them are above the average for the whole country.

The cumulative effects of poverty and scanty education have had much to do with their inferior intellectual position. The solution lies to a large extent in education in the broad sense of the term—an education which will continue beyond mere schooling and, by means of extension work like that done by the Department of Agriculture in a small way to-day, will not only help the people to control their environment more effectively, but will compensate them for the limitations imposed on them by their occupations and isolation. The possibilities of adult training which recent studies have revealed, the improved facilities in the way of education, which include libraries for rural areas and broadcasting, have led the investigators to conclude their survey in a hopeful tone.

Old-fashioned education has been shown to be an inadequate prophylaxis. It has failed to help rural South Africa to weather a difficult economic transition. But education, which trains people in the knowledge and skill necessary for economic adjustment, and is above all directed towards the correction of wrong mental attitudes inherent in their *mores*, may be the chief means of saving white South Africa from being drawn under by an ever-increasing section whose cry is fast becoming that of decadent Rome: *Panem et Circenses.*

South Africa.
April 1933.

GREAT BRITAIN

EARLY in the year, Mr. Neville Chamberlain made a pronouncement in the House of Commons which will go down in the history of this Parliament as the "pegging away speech." "To-day," he said, "we have to keep pegging away if we are to succeed in bringing about trade recovery." It remains the keynote of the whole Government policy. They will not be tempted by short cuts; they tend to regard any alteration from the course they determined upon at the beginning of the Parliament as "hysterical and panicky" and they will have none of it.

I. The Budget

IT is in this light that the budget must be judged. Certainly the figures of revenue and expenditure must have made unattractive reading for Mr. Chamberlain. Last year's revenue fell short of the estimates by approximately £22 million, and expenditure exceeded the estimates by £11 million, and there was a payment of £29 million to the United States. These items total £62 million. Thus there was a net deficiency of £33 million, which had the result of creating a deficit of £32,200,000. Mr. Chamberlain regarded the payment to America as an exceptional expense, and thus narrowed the real deficit down to £3,300,000. For next year he again refused to budget for the American debt. On the existing basis of taxation he estimated the total revenue, including the Post Office and the Road Fund, at £796,269,000. His estimated expenditure was £781,025,000. Thus he had a prospective surplus of £15,244,000, allowing nothing for the Sinking Fund, which he has decided to suspend. Minor tax changes increased the prospective surplus to £17,291,000. A further windfall was added by taking the £10,000,000 from the old 5 per cent. war loan depreciation fund, which was no

longer needed. With this surplus he proceeded to a reduction of the beer duty, which cost £14 million, and to restore the system of paying income tax in two equal instalments, which cost £12 million. Thus there was a final prospective surplus of £1,291,000. Such a budget arouses neither enthusiasm nor indignation. It was, as Sir Herbert Samuel described it, "a pedestrian budget." Mr. Neville Chamberlain would not quarrel with that definition. That was what the budget was meant to be.

The Chancellor was faced with the alternative either of producing what has been called a gambler's budget or a grim budget. He had his choice between the Keynes view and the Treasury view of sound finance. The Keynes view has been brilliantly expressed in a series of articles in *The Times*. Briefly it is that the best way to balance the budget is to unbalance it. The argument is that lower taxes, by stimulating trade, would, in the long run, produce more revenue. To give this policy time to bear fruit, it is further suggested that the national finances should be balanced, not for a period of one year as at present, but for a period of three years. Against this radical departure were ranged the hosts of orthodoxy. It was argued that such a course would lead to the revival of all the old fears about the stability of the pound. A balanced budget was the only effective barrier against a flight from the pound. It was asked what guarantee there would be that relief of taxation would result in relief of unemployment. Unless real confidence was restored, the money released might merely take flight, not into reproductive employment, but into the strongrooms of the banks. The psychological effect on the United States had also to be taken into account. It would be increasingly difficult to get Congress to release Great Britain from her debt if it became known that her finances were already restored to such a sound condition that she could afford to embark on sweeping reductions of her income tax. Anyhow, the arguments of the orthodox prevailed with the Chancellor, and the present

humdrum budget has been the result. It is certainly consistent with the Government's whole record—of eschewing the spectacular.

As such it has received a great measure of support among the mass of Government supporters. They recall that their main appeal at the election was for a balanced budget and that any radical departure from that principle would be to betray their own pledges. Indeed, there is a strong inclination to think that the hard thing is right primarily because it is hard. The indecisive attitude of Mr. Chamberlain on the taxation of the co-operative societies has exasperated a great number of members. They urge that if it is just to tax the co-operative societies, then the Government ought to do so and "damn the consequences." But is it just? The crux of the question concerns trading with members. The Raeburn committee appointed to enquire last year into the whole question accepted the argument that the dividend is only a returned overcharge and recommended that it should not be taxed. The question is whether the same argument does not apply to the reserves. It is contended that they are as much the property of individual members as the dividend, the difference being that the one is distributed and the other is undistributed income. The opinion of the mass of Conservative members, stimulated by the private traders who regard the co-operative societies as in a privileged position, will be in favour of their further taxation. There will also be keen criticism of the high duties on heavy motor vehicles which follow on the recommendations of the Salter Report, though they are not so high as was suggested in the report.* In one case the duty leaps from £60 to £300. On the whole, the budget raises no great issue of principle in the ranks of the Government supporters, and should have a comparatively easy passage.

The official Opposition, as is the way of Oppositions, opposes. Their main contention is that it contains no

* A reference to the Road and Traffic Bill will be found on a later page.

benefits for the unemployed. "The fundamental cause of bad trade, unemployment and poverty," said Mr. Lansbury, after the Chancellor had sat down, "is that no Government had faced the fact that production outstripped consumption and the only problem to be solved was how to bring an increased consumption of the goods produced. Until they got down to that, all this business of budget balancing was beside the point." Sir Stafford Cripps, who is rapidly becoming the most formidable controversialist in the Socialist ranks, used it as a text for an attack on capitalism. "The system of trying to revivify private *enterprise," he argued,* "*by allowing it to accumulate* large private funds was not functioning because at the other end the people had not the opportunity to increase their consuming power."

So far as this budget was concerned, the Chancellor of the Exchequer had clearly pinned his faith on revitalising industry by the building up of the profit fund. The Opposition, on the other hand, believes that the profit fund should be eliminated altogether and that the State should take over the control of the means of production and thereby the organisation of the expenditure of the country, and in that way they could force into circulation money and credit at present lying idle and unused.

Sir Herbert Samuel for the Liberal party launched an attack so severe that many thought it must be the prelude to leading it into opposition. His main contention was that the budget was a smashing illustration of the failure of protection. "This was what the country had said at the general election—we cannot bear this enormous burden of taxation, we cannot carry this immense amount of unemployment. That was a year and a half ago. A majority of the Cabinet chose their course. We (Liberals) dissented and we resigned. The Government pursued its policy; it has produced its results. Unemployment is increased, taxation is undiminished. That is the picture presented by the present Government."

II. The Trade Agreements

FURTHER evidence of "the pegging away" policy appears in the trade agreements concluded with the Argentine, Germany and Denmark, and there are two more agreements with Norway and Sweden to follow. Great emphasis has been laid, both at the election and since, on the fact that tariffs are not merely being employed for the purpose of reducing imports, but that they are, in the words of Mr. Baldwin's election address, "the quickest and most effective weapon to induce other countries to lower their tariff walls." The pledge was repeated in the debate on the Import Duties Bill, and the moment that the Ottawa Agreement was concluded, negotiations were opened with foreign countries for greater reciprocal trade by a mutual reduction of tariffs. The results have now been laid on the table of the House of Commons.

The agreements can be summarised briefly. The main point of the Anglo-German agreement, which is of a limited character, is that the British coal quota taken by Germany shall in no case be less than 180,000 tons a month and that it shall increase in proportion to the consumption of coal in Germany.* These concessions by Germany are conditional on Great Britain agreeing to reductions of tariffs on a variety of articles such as toys, gramophones, jewellery, safety razor blades and many other secondary manufactures. The Government calculated that the agreement would result in the employment of 3,800 British miners, as against, say, 1,800 persons adversely affected by the reduction of the British duties involved.

The agreement with the Danes is wider in its operation. Its main feature is the recognition by Denmark that the balance of trade between the two countries is heavily in her

*This quota in October, 1931, had been 300,000 tons, but it was lowered gradually to 100,000 tons. Bunker and Free Port coal, about a million tons a year, are extra, and left free from trammels.

favour and her promise to redress that position. She agrees to admit free of duty a wide range of British goods, machinery, coal, coke, iron and steel, tinplates, galvanised sheets, jute cloths and the like. She agrees to take from Great Britain 80 per cent. of her total coal imports,* and is to make every effort to maintain the market for British coke. She is to reduce her tariffs on other classes of British exports, including printed cotton piece goods, not to increase her tariffs on "a very wide range of goods," including all cotton and woollen piece goods other than those covered by the reductions just mentioned. She is, moreover, to buy from Great Britain all the jute, salt, saltpetre and wrapping paper required for the export to us of bacon, hams and butter. It is further announced that the Danish Government is to undertake "a course of action," as a result of which it is hoped that Great Britain's export of iron and steel to Denmark will be doubled. An order for the construction of the Storstrom bridge, which will be one of the finest in Europe, has already been placed in this country.

Great Britain on her part agrees not to regulate the quantity of Danish bacon, hams, butter, eggs, or cream except in so far as it may be necessary for the effective operation of domestic marketing schemes. There follow clauses which specify the minimum that she agrees to take. In the case of bacon, which is easily the most important of the Danish exports, it is not less than 62 per cent. of the total permitted imports from foreign countries. In butter the Danish allocation is not to be less than 2,300,000 cwt. in any year. The agreement is to last for three years.

Next we come to the Argentine agreement. The question of amending the Argentine general tariff is still under discussion. The Argentine delegates are agreeable, "so far as the fiscal situation and the interests of national industries permit," to lowering, for all nations alike, the

* An increase of about 1,300,000 tons on the 1931, and of about 780,000 on the 1932 comparison.

present duties on goods, a substantial part of which, especially certain cotton goods, come from the United Kingdom, to the old 1930 scale, and no new or increased duties are to be levied, which means that our coal will still be admitted free. We too agree to impose no new or increased duties, or quantitative restrictions, on certain goods. The convention may, however, be denounced if a supplementary agreement with regard to tariffs is not come to by August 1 next.

So far as this country is concerned, the most important advantage thus far gained has been a financial one. The convention provides, subject to the Argentine Government being allowed to deduct a reasonable amount towards payment of its public debt services generally, for the unfreezing of debenture interest and remittances, to the amount of some £10 million due in respect of British investments in the Argentine. As a result of the exchange restrictions, a good deal of trade has been blocked in this way. The Argentine on its side is to be free to send us as much chilled beef (99 per cent. of Argentine chilled beef depends on the British market) as it sent us in the corresponding quarter of the year ending June 30, 1932, unless restriction is necessary to keep the price at a remunerative level, in which case the quota may, provided that the gap is not filled by other kinds of meat, be reduced by a further 10 per cent. But any further reduction will not be made unless it is to be shared by the Dominion supplies. No restrictions are to be imposed upon our imports of foreign frozen meat, except those agreed to at Ottawa, unless a restriction of the supplies from the Dominions should be arranged, in which case the Argentine is to be fairly treated. Its frozen meat is of far less importance than its chilled. It was calculated by the Government that, by June, 1934, one-third of the former Argentine supply will be supplied from the Dominions and this country. The underlying principle of the arrangement is the home supply first, next the Dominions,

then the Argentine. The convention, if not denounced by August 1, is to be for three years.

These agreements have been attacked by a section of the Conservative party with a ferocity hardly equalled even on the Government's Indian policy. The attack began with the German agreement and was led by no less a parliamentary figure than Sir Austen Chamberlain. His main argument was that, for limited and problematical gains to the coal industry, we were risking serious loss to the small industries now beginning to sprout under the shelter of the new tariffs. The particular industry that concerned his constituency was jewellery, and his speech opened the way for member after member rising to state the case of specialised constituency interests. A debate that was expected to run an hour or two at most lasted all day and ended in more than 50 Conservatives going into the lobby against the Government and three times that number of abstentions. The general attitude of the Liberal and Labour parties was that, miserable though the gains were that the Government's use of the bargaining weapon had produced, they were better than nothing. The agreements were in the direction of freer trade and as such ought to be supported. This approval from free traders only exasperated the ultra-protectionists further, and when Mr. Runciman bluntly stated, in the course of his reply, that if they did not like the way he had negotiated the treaties they must get somebody else to do it, there were some cries of "we will." Lord Beaverbrook is leading the attack in the country and the *Daily Express* every morning exposes the iniquity of what it has christened "the Black Pacts."

It is unfortunate that the attack should coincide with the return of the Prime Minister from Washington. Mr. Roosevelt has gone so far as to propose a tariff truce, but the difficulties of striking a bargain are enormously increased if every reduction in tariffs is to be the subject of relentless hostility stage by stage from the interests concerned. Indeed such an attitude would imperil the future success

of the Economic Conference. For obviously there cannot be effective tariff reductions unless they are mutual. It is no good talking of a truce if only one side proposes to end hostilities. But a fear has been expressed from a different angle that such bilateral agreements at this stage may themselves prejudice the prospects of the Conference. The Americans, it is said too, may resent the Argentine convention, and Germany and Poland, who stand to lose by our coal arrangement with Denmark, may retaliate upon her and weaken her buying power.

So far the Prime Minister has only given the most general account of his visit to Washington. In the course of a short statement in the House of Commons he said that his conversations with President Roosevelt on tariffs, quotas, exchange control and currency stability had yielded encouraging results. On the subjects of war debts differences of view have been usefully defined. There was one sentence which gave some alarm to the free traders. It was to the effect that in answer to the tariff truce proposal of Mr. Roosevelt he had pointed out the difference between the position of a country like Great Britain which had a low tariff and that of other countries which had the most elaborate network of economic defences. He made it clear that the application of any truce would be subject to the safeguards which this difference made necessary. This is regarded in some quarters as indicating that the pressure of the protectionists has not been without its effect and that the Government are unwilling to take the lead in tariff disarmament at the Economic Conference. Searching questions will also be asked about the Government's policy and plans for the Conference. There is a feeling by no means confined to the Opposition that the Government are not sufficiently prepared to direct events.

III. The Home Front

BUT though the main attack of the Government on unemployment has been international, they have not been idle on the home front. They have foreshadowed important legislation on the vital subject of rate relief. Responsibility both administrative and financial has been accepted for the able-bodied unemployed who are now largely a local concern. This step will necessitate a readjustment of the block grant and the opportunity will be seized, to make some special allowance to the necessitous areas. The announcement follows a long agitation conducted quite as strenuously by the Government cohorts as by the members of the Opposition. It has been realised by all who are in intimate touch with the worst unemployment belt, that one of the main obstacles in the way even of the smallest measure of trade recovery is the burden of the rates. They frighten away any manufacturer looking for a new site for a factory. Thus where the plight of the population is most desperate the chances of rescue are the most dismal. There is also the more elementary question of the decreasing capacity of these areas to raise the necessary rate at all. Some towns which are dependent on one industry alone, like coal, have been faced literally with bankruptcy. This admission by the Government therefore that unemployment was a national rather than a local responsibility was more widely welcomed than any measure that they have yet produced.

The Road and Rail Traffic Bill, which is an attempt to place the two vital forms of transport on an equal competitive basis, has received a second reading with less opposition than was at first expected. Only the Socialists voted against it because it was not socialism. The main Conservative opposition was concentrated in the argument that, as Sir Arthur Steel Maitland put it, "the charges

imposed by the Bill, coupled with the increased taxation imposed in the budget, would raise the cost and impair the efficiency of transport generally, and thus add to the cost of living at home and to the competitive handicaps of British industry abroad." The Bill has been sent to a Standing Committee, where it is likely to have some rough handling from the interests that are affected. But the general view is that the railways are, in existing conditions, operated under a disadvantage and that the removal of restrictions, out of date now that the railways no longer hold a monopoly, and the enforcement on the owners of road vehicles of a higher standard of safety and service will do something to stop the rot in the catastrophic fall in railroad receipts.

The position of the iron and steel trade continues to cause the Government anxiety. The committee appointed as the price of tariffs to draft a scheme of industrial reorganisation has now reported in favour of control of the industry through a central body co-ordinating subsidiary associations appointed to deal with each separate productive branch, which shall be called the Iron and Steel Corporation of Great Britain. Mr. Neville Chamberlain in a letter to the chairman of the Import Duties Advisory Committee welcomes the proposal but adds, "you will, however, recognise that only the first stage has been reached and that much remains to be done before the industry can be said to be properly organised." The letter ends with the hint that the Government, while infinitely preferring reorganisation on a voluntary basis, reserve the right to take, if necessary, compulsory powers.

Now that the Housing Bill is through the House of Commons the clearing of the slums is also for the time being a question rather of administration than of legislation. In this connection the Government have issued an important circular declaring that the present rate of progress in slum clearance is too slow, and calling for a concerted effort between the central government and the local authorities. The Minister of Health has asked to see "not later in

any event than September 30 next a copy of the programme adopted by the local authority." During the last fifteen years slum clearance has only been effected at the rate of a thousand houses a year and this recognition by the Government of the necessity of increased driving force from Whitehall has given great satisfaction. Its bearing on unemployment is also obvious, for the percentage of the unemployed in the building trade is one of the most lamentable features of the monthly trade returns.

Another weapon for grappling with the crisis that might legitimately come under the head of administration is the Exchange Equalisation Account which is maintained by the Treasury to stabilise the pound. Powers are now being taken to increase the amount available for flattening out undesirable fluctuations from £150 million to £350 million.

On only one issue have the Government allowed themselves to be distracted from their struggles to bring down the unemployment figures, and that has been the Russian arrests. The temper of the House of Commons was more inflamed on the debate on the Russian embargo than at any time in the history of this Parliament. It was felt, as Sir John Simon unfolded the story of the fantastic charges and Russian methods, that the actions of the Soviet authorities were a flagrant violation of the principles of international justice. Only the Labour party voted against the grant to the executive of the powers to employ an embargo on Russian goods if it was deemed advisable, and even they were unusually restrained in their criticisms. The feeling of abhorrence at the Ogpu was undoubtedly reflected in the country.

But since the promulgation of the sentences public opinion is not perhaps as unanimous as it was. There are doubts whether the British Government have done right in imposing the embargo on Russian imports as they did. It is argued by many that no hostile action ought to have been taken until the petitions of the sentenced men had been heard.

IV. Trade and Unemployment

THERE is some small evidence that an impression has latterly been made in the terrible figures of unemployment. The latest statistics show a decrease of 78,550 in the numbers of unemployed compared with the previous month, when there was a corresponding decrease of 80,454. On April 24 there were 92,000 more persons in employment than there were a year ago. There is a slight but definite improvement in the heavy industries. Under coal, for instance, it is reported that "the immediate enquiry is fairly brisk for all classes of graded steam coal." In iron and steel it is stated that, though the volume of business is still disappointing, "an undertone of confidence continues in the markets." It is announced from the wool area that there is "increased activity among the buyers of hosiery yarns," and from the cotton districts that "home trade is broadening steadily and some of the contracts for summer dress fabrics, limbrics, linings and overall cloths have been for substantial quantities." Leicester reports "possibly a slight increase in business."

There are, however, features in the trade returns which show that the time has certainly not yet come for optimism. *The Economist*, which had found "some evidence of a slow improvement in British industry," in its review of the March statistics, reminds us that the April figures, even allowing for the fact that Easter fell in that month, show a falling off "ominously greater in exports than in imports," that the reduction of £28·1 million in our adverse trade balance for the first three months of the year has now shrunk to £21·3 million, and that there has been a decline of 22·2 per cent. in our re-export trade since the beginning of the year.

The numbers of total unemployed, moreover, notwithstanding the recent reduction, still remain at the huge

figure of 2,697,634. There is an undercurrent of feeling that the Government is losing ground.

The continued flirting of the Labour party with revolutionary socialism is, however, probably an electoral asset. Sir Stafford Cripps, the ex-Solicitor-General in the Labour Government, who may be Labour's next Prime Minister, has once again stated that a Labour Government with a majority in the House of Commons would pass in the first session a General Enabling Act for the immediate socialisation of banking and other industries. Parliament would be asked merely to express its general approval of the proposal, the details would be transferred from the control of a House of Commons committee to the laboratory of Whitehall. Mr. G. D. H. Cole, who has great influence with the younger Socialists, has elaborated this proposal in a pamphlet for the Socialist League entitled *The Socialist Control of Industry* in which Parliament is definitely relegated to a subordinate position in the constitution. Even the ex-Liberals in the Labour party who up to now have exercised a moderating influence are beating the same drum. Sir Charles Trevelyan speaking in Manchester recently said, "the Labour party is never going to be any good until it makes up its mind that it is out for revolution. By that I mean revolution by English means and English methods. We have got to get the workers to vote for a revolution of our economic society, and then we have got to use constitutional means to carry through that revolution. . . ." It is argued that speeches of this kind prevent the flow of recruits to the Opposition being converted into a flood.

Such by-elections as there have been indicate that, though there is the inevitable decline in the Government vote and an increase in the Labour vote, they have not yet assumed proportions that need give the Government cause for serious alarm. At Ashford a semi-industrial seat of the kind that Labour must capture if it is ever to secure a majority in the House of Commons, the Conservative vote

only fell by 4,000 on the enormous figure of the general election and the Labour candidate was at the bottom of the poll, 5,000 votes below the Liberal. In East Rhondda, in the heart of the stricken South Wales coalfields, there was no Government candidate, but the Communist who might well have been swept back by " the misery vote " increased his poll by less than a thousand. It can be safely said that as yet there is no growth in the forces of revolution. Indeed the industrial districts are certainly quieter than they were at the beginning of the winter. This improvement in temper is very largely due to the efforts of the Social Service League in providing not merely soup-kitchens and clothing but social and occupational centres for the unemployed.

On the record of the Government as a whole the country is suspending judgment. Its mood has not really changed since the election. It will support any measures that will get it out of the morass. It is united for action. What it will not tolerate is drift. The turning point in the life of the Government will be the meeting of the Economic Conference to be opened by the King on June 12. Is the principle of national self-sufficiency or international co-operation to triumph?

THE IRISH FREE STATE

I. Political Developments

OUR political situation is developing "according to plan." The new Dail met on February 8, and re-elected Mr. de Valera as President of the Executive Council. His proposer, Mr. Sean Moylan, expressed the pious hope that on the next occasion he would nominate Mr. de Valera as President of an all-Ireland Republic. Mr. Cosgrave, on behalf of his party, opposed Mr. de Valera's re-election on the grounds that there could be no hope of national advance whilst his policy was persisted in. Mr. MacDermot, the Leader of the Centre party, stated that, whilst they were in strong disagreement with what Mr. de Valera had done and proposed to do, they would not vote against him because they must accept the situation and recognise that the result of the general election made his re-election inevitable, but they could not vote for him, and would therefore abstain. He further stated that the difference between his party and Mr. de Valera was not so much one of objects but of methods, that Mr. de Valera's methods unfortunately struck at the root of Irish prosperity and well-being, and not only created bitterness, but were opposed to all common sense and bound to be barren of any useful results. Mr. Norton, Leader of the Labour party, said that Labour would support Mr. de Valera because it believed that Fianna Fail, in co-operation with Labour, would initiate a bold economic and social policy, and a no less bold national policy.

Mr. de Valera was then re-elected by 82 votes to 54, the Centre party not voting, and, after being received by the Governor-General, announced the composition of the new Executive, which, under our constitution, is nominated by the President and approved by the Dail. The only changes were the expected retirement of Mr. James Geoghegan, K.C., from the Ministry of Justice, the

er to that position of Mr. P. J. Ruttledge, a Mayo
on, previously Minister for Lands and Fisheries, the
er of Senator Connolly, formerly Minister for Posts
elegraphs, to the Ministry of Lands, and the appoint-
of Mr. Gerald Boland, formerly Chief Government
to the vacant Ministry of Posts and Telegraphs.

r to the opening of the Dail there were strong
irs that the eleven Nationalist members of the
ern Ireland Parliament would attend the first sitting
er to demonstrate against the partition of Ireland.
i performance would have been both provocative and
i, and fortunately did not take place. A few days
however, in a broadcast message to America, Mr.
lera said that Ireland could never abandon the hope
aining territory hallowed by so many memories and
ene of so many heroic incidents in her history. The
of her people would inevitably be bent upon the
ig of partition until all the land within her four seas
nce more united. To test the feelings of the Dail
s vital question Mr. MacDermot, the Leader of the
: party, on March 1 moved that a re-union of the
iation founded on good-will should be the primary
of government policy and that every other con-
onal issue should be subordinate thereto. In moving
otion he pointed out that the abolition of partition
ie of his party's principal aims; they proposed to
i partition by abolishing the animosities which were
ise. A republic might be a stage on the road to
which it was impossible to cut out, even though
t them far out of the direct way. Let them get it
Such issues as the Governor-General, the oath and
public were trivial in comparison with Irish unity.
ork of Irish re-union had yet to be accomplished in
d itself and by Irishmen. For them the beginning
dom was the recognition of the fact that we were
g with the Irish nation of to-day, not with the Irish
of the past. So long as they confined their idea of

nationality to what was Catholic, or Gaelic, or anti-English, they would not master the elements of the problem, and all hope of a union of the Irish nation founded on good-will would be an idle dream. The more they taught the Ulster Unionists to believe that they could not claim to be Irishmen at all the more insoluble the problem would become. It was not the constructive side of Irish nationalism that stood in the way of re-union; it was the side that, even if the North did not exist, they would be better without—jingoism, bitterness, intolerance, narrow mindedness and love of what was tawdry and superficial.

Mr. de Valera, in accepting the motion, complained that it was merely a pious expression of opinion, and that Mr. MacDermot had suggested no solution of the problem. He made, however, the pregnant admission that the only policy he could see for abolishing partition was for us so to use our freedom as to make the people of Northern Ireland wish to belong to the Free State. This is the policy which Mr. Cosgrave and his party have preached and practised consistently for the last ten years. But something more is needed, and Mr. MacDermot is right in suggesting that, if we desire to make progress towards national unity, we must subordinate relatively unessential issues to its achievement. For the moment Mr. de Valera's all-Ireland Republic remains, and is likely to remain, a carrot attached to the nose of the republican donkey, which it can never reach but which serves to distract its attention from realities.

On the same day as he accepted Mr. MacDermot's motion Mr. de Valera proved his complete disregard for the policy it laid down by proposing the Government's resolution to send back to the Senate in its original form the Bill for the removal of the Oath of Allegiance from the constitution.* No step could be more fatal to Irish unity. He made no speech, explaining that the Dail already was

* See The Round Table, No. 87, June 1932, p. 513 *et seq.*, and No. 88, September 1932, p. 747 *et seq.*

fully aware of the circumstances, and that no discussion was necessary. Mr. P. J. McGilligan, however, on behalf of the Cumann na nGaedheal party, insisted that the country must be acquainted with the facts of the case; that the Bill, which the Government now proposed to force into law, bore on its face the acknowledgment that it constituted a breach of the Treaty and that the Government had apparently decided to turn its back on methods of negotiation and agreement. The Treaty was, he said, still in force, although the Government had been trying to smash it piecemeal, and we now had all the disadvantages of isolation without any of the advantages of membership of the Commonwealth to which the Free State still belonged. Even now, however, if Mr. de Valera would institute negotiations with the British Government in respect of the oath, or any other constitutional problem with which the people might be said to be dissatisfied, he would, he was sure, have the unstinted support of all parties in the House.

The resolution was carried by 75 votes to 49. On March 16 the Bill once more came before the Senate, and, although Mr. de Valera pointed out that the electorate had given a clear verdict on the matter and that if the Senate should insist on rejecting the Bill again, there would be an end of democratic government, the Senate refused to pass the Bill. Under the Constitution the Bill was, however, passed into law by resolution of the Dail on May 3, the Senate's right of veto having then expired.

The dispute about the land annuities had meantime been also carried a step further.* On March 7 Mr. Thomas read to the House of Commons a letter which he had received from Mr. Dulanty, the High Commissioner for the Irish Free State, announcing that his Government had decided to use for "normal Exchequer requirements" the sums received from the land annuities and other charges which they had hitherto retained in suspense accounts.

* See The Round Table, No. 88, September 1932, p. 747 *et seq.*

In his reply, Mr. Thomas stated that the United Kingdom Government had received this communication with regret. Their offer of arbitration or negotiation still remained open, but they " cannot be understood to acquiesce in the action now announced." Mr. Lansbury, the Leader of the Opposition, suggested that the Government ought to give way on the " narrow issue " of the chairmanship of the Arbitration Commission, which was the obstacle to negotiation, but Mr. Thomas pointed out that, apart from questions of finance, the political question of the violation of the Treaty was involved. He was equally emphatic in refusing to go outside the Empire for an arbitrator. In reply to a question on April 26, Mr. Thomas stated that the sums withheld by the Irish Free State from May 1932 to date amounted to £4,864,000. The approximate total amount collected from July 15, 1932, up to April 22, 1933, in respect of the special duties and the duties under the Import Duties Act, 1932, on goods imported from the Irish Free State, was £2,727,000. It therefore seems that on April 22, 1933, the amount collected in respect of the duties by Great Britain was £2,137,000 less than the amount retained by the Free State.

It is, however, impossible to estimate accurately the losses, both tangible and intangible, which both countries have suffered by this senseless dispute. It was evident that the action of the Free State Government had become inevitable owing to their increasing financial difficulties, and that it would be impossible for them to meet their obligations without using the money in the suspense account. In the middle of March they introduced, and passed rapidly into law, a measure permitting them to use for ordinary Exchequer purposes the money paid into the land purchase annuities fund. Mr. MacEntee, the Minister for Finance, on the second reading, pointed out that under the existing law the local authorities were bound to make good the deficiency arising from the moratorium granted in respect of the land annuities,

which in the present year would not be much less than £2,000,000. There were only four ways in which the position could be dealt with, namely, by additional taxation, by withholding local taxation grants, by borrowing, or by the method the Government had actually adopted. Mr. Cosgrave moved an amendment to the effect that the Dail should decline to give a second reading to the Bill until proposals had been introduced by the Government providing that, pending a solution, by arbitration, agreement, or otherwise, of the outstanding disputes with Great Britain, land-purchase annuities should not be collected or payable. He pointed out that there was only one market for our farmers' exportable produce, and this had been, perhaps permanently, injured by the policy adopted. In seven months our exports had decreased by £7,000,000.

Immediately the Bill became law, on March 29, the Government began to use the money in the suspense account for general purposes, and it is now exhausted. But this raid on the suspense account, whilst it relieves, does not end the Government's difficulties. Twelve months ago the farmers were assured that the land annuities would be used, *inter alia*, to relieve them completely of local rates. Mr. Cosgrave's Government increased the original agricultural grant of £599,000, payable under the Local Government Act of 1898, to £1,948,000, and last year Mr. de Valera's Government added an additional £250,000, bringing the total sum devoted to the relief of agricultural rates up to £2,198,000. In order to make ends meet the Government have now had to reduce this grant by £448,000. This means under present rating conditions that even if the annuities are, in accordance with the promise of the Government, reduced by one-half, 30 per cent. of that reduction must be handed over to the rate collector. As the reduction in the grant was not announced until most of the county councils had already passed their estimates of expenditure for the year, it is now

impossible for them to reduce them, and they are naturally in revolt against the Government's decision. It is clear that these councils, which are largely composed of farmers, are not likely to press strenuously for the payment of rates, and an eventual breakdown of local government is not impossible. The Cork Farmers League has already warned the county council that its members will not pay an increased rate this year, and the General Council of county councils on April 5 passed a resolution stating that the agricultural community was entitled to exemption from rates and annuities during the economic war, and that there was no justification for reducing the grant.

Grants to various educational and cultural bodies, such as the Royal Hibernian Academy and the Abbey Theatre, have also been materially reduced. Economy and culture are apparently incompatible. But the Government believe in equality of sacrifice, and it is not only the farmers who have to suffer. At the end of March Mr. MacEntee introduced an Economy Bill which makes substantial reductions in the salaries of civil servants. He explained that in the first instance its duration would only be for one year. The proposed cuts would result in a saving of £280,000, and he had tried to spread them equitably over all branches of the civil service. The judges would be dealt with by special legislation involving a change in the constitution. In order to balance the budget either social services or salaries must be reduced. The Government did not propose to make economies in the social services or to increase the general level of taxation, so they were, he said, forced to impose reductions in the salaries of civil servants. Those whose total remuneration did not exceed £300 would not be affected; on salaries of from £300 to £400 (including the bonus) there would be a cut of 2 per cent., and from these upwards there would be a steep graduation until at the highest grade the figure of 25 per cent. would be reached. The Centre party moved an amendment making a second reading conditional on a

reduction in the allowances to members of the Dail and Senate, which, needless to state, was not carried. Mr. Norton, on behalf of the Labour party, strenuously opposed the Bill, which was, he said, a wage-slashing measure on the capitalistic theory that if wages were cut all would be well, and the National School teachers, who have really least to complain of, and who are mostly supporters of Mr. de Valera, held a fatuous one-day strike to demonstrate their righteous indignation.

It is certainly strange that the Government should have chosen this moment of financial stringency to arrange for the repayment of the balance of the Irish Republican Loan, raised in the United States during 1919–21, which amounts to about £1,000,000, and which need not have been repaid until after the recognition of an Irish republic. *The Irish Press*, Mr. de Valera's paper, states that the loan is being repaid to show our gratitude to the Irish in America, and to demonstrate to the world that we admit and pay our just debts. But if the account of *The United Irishman*, the Cumann na nGaedheal party organ, is correct, it should be pointed out that Mr. de Valera, in February 1930, circularised subscribers to this loan and apparently obtained from many of them an assignment of their bonds, which were then being repaid in part out of unused moneys retained in America, to assist in the establishment of *The Irish Press* itself. If so, when these bonds are now paid off in full, Mr. de Valera will, of course, receive the substantial balance due on those already assigned to him and can use the money for the maintenance of the newspaper he controls. The Labour party may justly complain that the amount to be used in repaying this loan would have been better employed at home in saving the civil servants from an unfair cut in their by no means extravagant remuneration.

The relations between the Labour party and the Government are indeed far from cordial, and have not been improved by Mr. Hugo Flinn, the Parliamentary Secretary

to the Minister for Finance, who is in charge of the unemployment relief schemes, and who refuses to pay in agricultural districts more than agricultural wages. It is true that Mr. Flinn, who is a rather aggressive person, has not attempted to sweeten the pill by his method of administering it, but there is, nevertheless, some point in his complaint that with a necessarily limited grant the higher the wages paid the fewer the persons who can be relieved. It is obvious that if the Government deal firmly with extreme Labour demands they can rely upon the support of the Centre party and are therefore not in jeopardy. Labour is, in fact, virtually impotent in the new Dail, and its followers are beginning painfully to realise that their leaders have sold their birthright for a mess of pottage.

The Government, in fact, seem to be at more pains to placate the extreme republican element than Labour, for they have introduced two Bills, one of which would abolish the declaration of allegiance to the State and constitution which has to be made by local officials, and would compensate those who have suffered loss or disability by refusing to make them. The other proposes to remove the prohibition which prevents persons who fought against the Government in the civil war from obtaining compensation for damage to their property. Perhaps even more significant of this tendency was the Government's removal from office, on February 22, of General Eoin O'Duffy, the Chief Commissioner of the Civic Guard, who has been the head of that efficient police force ever since its formation, and is largely responsible for its satisfactory development. His dismissal had been demanded for several months by *An Poblacht*, the official organ of the I.R.A., but Mr. de Valera, who denied in the Dail that he ever read that journal, indicated that his objection to General O'Duffy was that he was Chief of Police for ten years under the last Administration, and stated that during those ten years every act of indiscipline was condoned. He added that, whether it was the Governor-General or

the Chief of Police, as long as his Government were responsible for public policy they meant to have men in whom they had confidence. This would have been a perfectly legitimate attitude when the Government first took office, but it was hardly fair to remove General O'Duffy at this stage without any ostensible reason, more particularly as he was offered at the same time an equally responsible office in another department of State, an offer which should not have been made if he is not to be trusted. Altogether this affair following, as it did, upon the removal in a similar fashion of Colonel Neligan, the head of the Criminal Investigation Department, did not increase public confidence in the Administration.

The Government committed another *faux pas* by instituting hasty criminal proceedings, under the Official Secrets Act of 1911, against Colonel Hogan, an army officer and brother of the former Minister for Agriculture, and Inspector Edward O'Connell, the second-in-command of the Crimes Branch of the Civic Guard. When the trial took place it transpired that Inspector O'Connell had quite openly, on instructions received from his superior officer, Colonel Neligan, sent some pamphlets dealing with communism from the official files to Colonal Hogan for perusal by his brother, James Hogan, Professor of History at the National University and a reputable publicist, who is writing a book on communism. The pamphlets, in fact, never reached Colonel Hogan, as the officer who was told to deliver them handed them over to Colonel Broy, the new head of the Civic Guard, and proceedings were hastily instituted without asking the officers concerned for an explanation. The jury stopped the trial before the case for the defence was closed and returned a verdict of "Not Guilty." After this verdict Inspector O'Connell was reduced to the rank of Sergeant, an action which seems contrary to justice.

The I.R.A. refused to be placated by these overtures, and are becoming definitely antagonistic to the Govern-

ment. They strongly object to the new Volunteer Reserve force which the Government is understood to contemplate forming, and General Sean Russell, one of their leaders, speaking in Dublin on March 24, stated that if there was to be a clash with Great Britain the Republican Army was the only force that could be relied on. He called upon the young men not to become members of the new force, but to join the Republican Army, drill, arm and equip, and be ready to strike for freedom when the opportunity arrived.

Another serious difference has arisen with the Government over a deportation order against one James Gralton, a returned American citizen, who is alleged to be an "undesirable alien" and accused of being a Communist. Gralton, who resides in the County Leitrim, has gone into hiding, and when Mr. Peadar O'Donnell and other I.R.A. stalwarts ventured into the district to hold a meeting protesting against the deportation order, they were soundly beaten by the inhabitants and chased out of the locality. Mr. O'Donnell and his friends maintain that the right way to attack the British Imperialist machine in Ireland is to strike at its foundations, the landlord, the rancher, the banker and other exploiting interests, and that the Government have failed to do so. "The Treaty, the constitution, the legal code, and the economic and social order resultant from these evils" must, they say, all be scrapped as they have been imported from Britain, and the Government, in their view, has become enmeshed in their machinery. The Workers' Republic, which they describe as their aim, is, of course, only camouflaged communism. A draft political report, recently discussed by the organising committee of the Irish Communist party congress, states that

the Irish working class is confronted with the task of winning the leadership of the mass movement against British Imperialism and so defeating the attempts of the national middle class to come to a compromise on the basis of a revised treaty. This is the path forward to a united independent Ireland, to a Workers' and Farmers' Republic, to the dictatorship of the working class in alliance with the working farmers.

A considerable number of the I.R.A., and the political wing known as Sinn Fein, of which Miss Mary MacSwiney is the real leader, do not agree with these views. Neither has the Catholic Church any illusions as to where they lead, and influential clergymen as well as the Catholic press demand Catholic and, if necessary, State action to prevent the organisation of a Communist party in the Free State. Communism commands at present no real support amongst the people; in fact, a very different attitude was revealed when a mob recently wrecked Connolly House and other premises in Dublin which are identified with the communist movement. An amusing incident in connection with this occurrence arose out of the subsequent police proceedings against Mr. Charles Gilmore, a famous I.R.A. hero, for carrying a revolver and using threats. Gilmore stated that he had permission to carry a gun from the I.R.A., the only people in the country competent to give it, whereupon the Adjutant-General of that force wrote to the press to state that Gilmore had no such permission.

A sense of humour would really be more valuable than guns to the I.R.A., but the A.C.A., or Army Comrades Association,* which is the rival organisation, seems to be equally defective in this respect, for one of its prominent members in Kerry, having recently seceded from the organisation, proceeded to form a new body which he called the Irish Unity League! The A.C.A. have now revised their constitution, and define themselves as a civil organisation giving disciplined service to the nation, whose principal objects are to promote the reunion of Ireland by peaceful means, to oppose communism, and to safeguard the right of free speech. They have adopted blue shirts and black berets as their official uniform, and are taking steps to improve their organisation throughout the country. These indeed are not the only manifestations of a Fascist trend in our political life. Mr. Cosgrave's party organ, *The United Irishman*, has recently published an unofficial article

* See The Round Table, No. 89, December 1932, p. 125.

attacking our "demagogic parliamentary constitution," to which it attributes Mr. de Valera's success, and claiming that the only hope of stopping shady politics is a great movement for the establishment here of an organic associative State on Fascist lines; whilst Mr. de Valera himself has recently stated that it would be a very good thing for the country if the Government could get six months' holiday from the Dail in order to solve the question of unemployment. The one thing we unfortunately seem to lack is a Mussolini.

II. Trade and Transport Troubles

ONE of the new and vital factors in our economic life is the increase of our population. This is due principally to the virtual stoppage of emigration to America. The increase now is at the rate of from 10,000 to 20,000 a year. Ten years ago the decrease, owing to emigration, was from 20,000 to 30,000 a year. The increase in population at present is not equivalent to that, because apparently deaths are exceeding births in a higher degree than formerly. The total population is now virtually 3 million; in 1930 it was 2,946,000. The Government claim that their tariff and tillage policy is the only sound method of absorbing this surplus population, and that we are now passing through a transitory period of hardship before the new policy begins to bear fruit. Whatever may be the ultimate effect of this policy there can be no doubt about its present unpleasant results. During the last twelve months the persons in receipt of Poor Law relief have increased by more than a third. In some of the more remote country districts trade is sometimes carried on by a system of barter. Shopkeepers are reducing credit in all directions, and business generally is stagnant. Organised Labour will not allow social services to be cut, the farmers are clamouring for more relief, and the patient middle classes are being bom-

barded with income tax assessments and demands, for they are fair game and no one's child.

The latest trade returns illustrate only too well the disastrous results of the economic war. Our total trade for the year that ended on February 28 was £64,742,278, as compared with £86,210,865 in the previous year. In the same period the adverse balance rose to £15,393,328, as compared with £14,124,043. Only 71 per cent. of the Free State imports in February came from Great Britain and Northern Ireland, while Germany, Poland, the United States, Holland and Sweden increased their sales to us, but not their purchases. However much we spend abroad we cannot sell abroad. Great Britain and Northern Ireland still take 94 per cent. of the goods we export, and no one else will do this. Our import of motor cars for January and February, 1933, has, owing to the prohibitive tariffs, fallen from 1,047 to 106. To meet this situation, the Ford Company are using a portion of their almost closed Cork factory to assemble their "baby" car, but, as things are now, even "baby" cars will shortly be a luxury beyond most people's means. The export of live stock during the first two months of 1933 shows a decrease of more than a million pounds as compared with the corresponding period of 1932. Our total exports for the same two months show a fall of over two million pounds as compared with last year.

On the other hand, Mr. Lemass, the Minister for Industry and Commerce, speaks of a hundred new factories, and claims that unemployment is decreasing, that we are becoming more and more self-supporting, and that we are the only country not suffering from over-production. In spite of these developments, however, the past year was the most unfavourable the Irish banks have experienced in recent times. Their aggregate profits show a reduction of £165,000, or 14 per cent. Each bank shared in this fall in earnings, and in every case dividends were lowered. There is no doubt that this state of affairs is due to the condition

of our agricultural industry. The recently published census of industrial production shows that during the period 1926–1929, under the Cosgrave Government, the net output rose by 8 per cent., and the number of persons employed by 4·2 per cent. The same return shows that exports then constituted 38 per cent. of total production in the Free State, as compared with 27 per cent. in the United Kingdom.

On April 13 the *ad valorem* duty of 40 per cent. on Free State cattle entering England was altered to a *per capita* duty varying from £1 5s. to £3, according to the animal's age. This change has apparently been made for administrative reasons and is not expected to affect the yield of these duties in the aggregate. Whilst all these things are going on, the Argentine and the Scandinavian countries are busy negotiating trade agreements with Great Britain which give preferences to British goods in return for preferences to their products, which are chiefly agricultural. Our trade rivals suffer from no anti-English complex and will not cut off their noses to spite their faces. In short, since the economic war was started our agricultural producers have lost far more than they could possibly gain by the complete remission of the land annuities. If the dispute lasts much longer they can reconcile themselves to the painful fact that no outlet will exist for their produce, except the very limited and grossly over-rated home market. The Scandinavians and the Argentinos will have captured what should belong of right to the Irish Free State.

Our present difficulties have been further aggravated by trouble on the railways. In January a strike took place on the Great Northern Railway, owing to the refusal of the railway unions to accept the cut of 10 per cent. in wages which was sanctioned by the Wages Board. This strike would have taken place also on the Great Southern Railway if the Free State Government had not agreed to pay by subsidy the difference in wages until the end of April. They could not do this on the Great Northern line, a large portion of which is situated in Northern Ireland.

The strike lasted for over ten weeks and caused a serious dislocation of life in the districts served by the railway, although it also demonstrated conclusively how easily the railways could be dispensed with altogether. It was unfortunately accompanied by acts of sabotage, such as the derailing of trains and the throwing of bombs at trains and 'buses, some of which resulted in loss of life. No one believes that the railway men were responsible for these outrages, which indicate that sinister revolutionary forces were only too ready to use the strike for their own ends. After several abortive conferences in Belfast, where the Northern Government's attitude towards Labour did not help matters, the strike was finally settled in Dublin on April 5, largely through the good offices of Mr. Lemass. He also settled an unofficial strike which then broke out in the Dublin district of the Great Southern Railway and lasted for a few days. The 7½ per cent. cut, with no allowances for holidays, to which the unions finally agreed, is virtually the same as the 10 per cent. reduction awarded by the Wages Board, and the terms of reinstatement enabled the companies to stand by the men who remained loyal.

There is some quite natural indignation in Ireland at the policy of the English railway unions which apparently involves fighting their test cases here at our expense. The perilous position of the Great Southern Railway is amply proved by the Company's annual report, which was issued at the end of February.* Gross receipts have fallen by nearly half a million pounds, and although expenditure was reduced by nearly a quarter of a million pounds, there was only a balance of £44,995 available after payment of debenture interest and fixed charges, so no dividends could be paid. The economic war is, of course, responsible for much of this loss. Nor is this condition of things due to mismanagement, for during the last seven years the directors, by economies and reorganisation, have reduced

* See The Round Table, No. 83, June 1931, p. 631 *et seq.*

annual expenditure by £1,282,421. They have also acquired control of the principal omnibus and road delivery concerns in the Free State, so that they can now undertake co-ordinated transport service both by rail and road throughout the whole Free State.

The Government's policy of dealing with this crisis in our transport system is embodied in three measures, the Road Traffic Bill, the Road Transport Bill, and the Railways Bill. The Road Traffic Bill is a non-controversial measure on somewhat similar lines to that introduced by the Cosgrave Government, but not passed into law.* It provides a very necessary code for the regulation of road traffic, including compulsory insurance of motor cars, on the lines of the recent English Motor Car Act. The Road Transport Bill compels all transport of merchandise and passengers by road to operate under licence, and authorises the railways, subject to the Government's consent, to transfer any such licences to themselves. They must pay compensation for these transfers, with further compensation for disemployed labour, and the terms of transfer will be settled by an arbitrator. As the Great Southern Railway are already in a position to eliminate competition by ordinary trade processes, it seems rather hard that they should now have to buy their competitors off the roads and liberally compensate their employees.

The Railways Bill is the most revolutionary measure of the three. Its outstanding provision is the drastic reduction of the Great Southern Railway Company's capital by more than one-half, from £26,000,000 to £12,000,000. £100 of 4 per cent. Debenture Stock are reduced to £85, of 4 per cent. Guaranteed Preference Stock to £50, of 4 per cent. Preference Stock to £35, and of Ordinary Stock to £10. All these securities are held extensively in Ireland, and many thousands of small investors have received a most unpleasant surprise on learning that their capital has

* See The Round Table, No. 85, December 1931, p. 151.

almost vanished. The shareholders were not consulted and the directors did not consent to this drastic step. The legal position of the debenture holders, which is, of course, quite different to that of the shareholders, seems to have been completely ignored or overlooked. The right of the London, Midland and Scottish Railway Company to nominate a director on the Great Southern board is repealed, and the number of directors is reduced from twelve to seven. Nor does the Bill hold out any hope of reward to the shareholders for these compulsory sacrifices. It increases restrictions and holds out no prospect of greater traffic or substantial economies. The Railway Tribunal will continue to control freights and charges. It is true that the Company can discontinue or reduce unprofitable train services, but in every case they must provide an alternative road service and compensate redundant workers. The net result is a measure which halves the Company's capital, increases its burdens, and will do little to revive its fortunes.

The Irish Free State.
May 1933.

CANADA

I. The Government and Its Critics

THE Federal Parliament, which had concentrated its energies during the autumn part of the present session mainly upon consideration of the fiscal agreements reached at the Imperial Economic Conference, resumed its labours on January 30, but expectations, based on the modest character of the legislative programme, that prorogation would be possible either before or immediately after the Easter recess, were not fulfilled, and the project, which the Opposition have agreed to facilitate, of winding up business by May 15, in order to allow the Ministry some time for adequate preparations for the World Economic Conference, which Premier Bennett will attend as Canada's chief representative, will entail the jettisoning of part of the Government's legislation.

The resumption of the session found the Liberals, who constitute the official Opposition, eager to exploit the popular discontent, and the disillusionment with the Government's policies which the persistence of the depression had generated, and to indulge in a comprehensive arraignment of the Ministry for a variety of sins of omission and commission. And since they were well equipped with parliamentary debating talent, they were able to press Ministers very severely on numerous occasions. Their general strategy was to limn the Ministry as in reality a reckless and incompetent dictatorship, manipulated by a Prime Minister who treated his colleagues as office boys, and who stubbornly refused to acknowledge the error of his ways, and to reverse fiscal and other policies which had aggravated the Dominion's economic difficulties and constituted a fatal barrier to any prospects of an early recovery of prosperity. Mr. Bennett and his colleagues strenuously denied the validity of these accusations about the Premier's dictatorial proclivities and, while admitting

that the fruits of the remedies which they had prescribed for the country's troubles had failed to realise their hopes, contended that the responsibility for their failure lay in general world conditions, beyond the possibility of cure by any Canadian Government, and that their tariff and financial policies had averted a wholesale industrial *débâcle* and maintained Canadian credit at a high level in the money markets of the world.

The Canadian public was disposed to make considerable allowance for the special difficulties which faced the Ministry, but it was far from satisfied with certain of its performances and was obviously reluctant to accept the picture of Ministers as a band of earnest, able men struggling with adversities beyond their own control. Three years' experience of the Bennett Government has produced an almost general consensus of opinion among intelligent Canadians that it contains too large a proportion of feeble vessels to be a first-rate administration, and that, prodigious and tireless as the labours of its leader are, they cannot compensate for the absence of sound intellectual equipment and administrative energy from which too many of his colleagues suffer. Peculiarly weak is the French-Canadian element in the Ministry, and, until conservatism can recruit for itself some reasonably competent leaders in the province of Quebec, its spells of power at Ottawa can only be intermittent.

But, although the Liberal Opposition is confident that the tide of public sentiment, to judge from the evidence of by-elections and other symptoms, has definitely turned against the Bennett Ministry, it has no serene confidence about its own future prospects. Its leaders have come to realise that a barrage of taunts about unfulfilled election pledges, and accusations about the inadequacy of ministerial policies, will not convince the country in its present mood that a Liberal Government can offer any better promise of economic salvation than a Conservative, and also that the bid which the new radical party, styled the Co-operative

Commonwealth Federation, is making for the support of the disgruntled elements among the voters cannot be treated lightly. So, after Parliament reassembled, the Liberal board of strategy proceeded to evolve for their party a new programme, which Mr. Mackenzie King disclosed in a speech delivered in the House of Commons on February 27. The majority of its fourteen items were largely in the nature of affirmations of doctrines which have been the stock-in-trade of the party since the war, but some new ground was broken. For example, the party is now definitely committed to the establishment of a national bank of rediscount, an investment control board and a system of unemployment insurance. With regard to the fiscal question, it is pledged, as soon as it is returned to power, to restore the general tariff to the level which prevailed before the advent of the Bennett Ministry, to enlarge the British preferential rate, to wipe out various arbitrary customs regulations designed to strengthen the protectionist fabric, and to negotiate liberal trade treaties with foreign countries. The new programme marks a distinct leftward advance for Canadian Liberalism, and is obviously planned for the purpose of stealing the thunder of the Co-operative Commonwealth party, but there is no certainty that it can accomplish this object, and meanwhile its more radical features have caused a certain restlessness among the more conservative faction of the Liberals of Quebec, which the Conservatives are assiduously trying to fan.

In Parliament the representatives of the new party have not during the session made a very effective impression, and there was recurring evidence of disunity of purpose. Some of them were frankly and persistently sympathetic to the Government, and one of these sympathisers, Mr. Milton Campbell, was rewarded with an appointment on the new Tariff Board, for which his qualifications are difficult to discern. Another group, headed by Mr. J. S. Woodsworth, an experienced Labour politician, who is

the titular leader of the new party, were continuously critical of the Government and its policies, and voted against it on practically every division. But they felt it good political strategy to be equally critical of the Liberal party and all its works, and to develop the thesis that there is no fundamental difference between the creeds and policies of the two historic parties. Naturally this attitude exasperated the Liberals, and there has, as a consequence, developed a cleavage between the two wings of the Opposition which will make co-operative arrangements between them for the avoidance of three-cornered contests at the next general election extremely difficult. Meanwhile the leaders of the Co-operative Commonwealth party have been exceedingly active in their campaign of propaganda in the country, and the large attendances which their meetings attract indicate that they find, at least in all the provinces west of the Ottawa River, fertile seedbeds for their policies, which are of a frankly socialist nature, and that the number of their adherents, who are drawn from both the Conservative and Liberal parties, is growing steadily as the depression deepens. In Parliament the agrarian members of the party were, during the session, very zealous advocates of currency inflation and the complete abandonment of the gold standard, and have had the satisfaction of seeing the Government converted by force of circumstances to the second part of their monetary policy.

The month of February was mainly consumed in academic debates initiated by the resolutions of private members who had been debarred from this form of activity during the autumnal sittings, and the resulting expositions of pet panaceas and the ventilation of grievances, if they rarely produced any tangible results, at least satisfied the orators who essayed them, and may have helped to convince doubting voters of their parliamentary industry. Early in March, however, the Government called a halt to these enterprises and demanded the attention of the House of

Commons to more serious business. They did not wait for the end of the financial year on March 31, for the Federal budget was submitted on March 21 by Mr. Rhodes, the Minister of Finance, who had a somewhat sombre tale to tell about the national finances. Estimated revenues of $315,290,000, placed against ordinary expenditures of $364,425,000, had left a nominal deficit of some 49 million dollars, but it was seriously swollen by heavy additional debit items of $9,123,000 for capital expenditure, of $42,483,000 for special expenditure such as unemployment relief and the wheat bonus, and of $1,959,000 for minor extraordinary charges, which raised the total of the expenditures to $417,990,000. But, in addition, a sum of $68,135,000 had to be provided for the deficit of the Canadian National Railway system, $17,489,725 had to be advanced to western provincial administrations to avert defaults on their obligations, and some 6½ million dollars found for the needs of different harbour commissions. So the aggregate result was a deficit of very formidable proportions, and Mr. Rhodes had to admit that the net national debt, which he placed on March 31, 1933, at $2,649,000,000, apart from indirect obligations totalling roughly 996 million dollars, had increased during the fiscal year by $102,700,000.

However, in a comprehensive review of the Dominion's financial and economic situation with which he favoured the House, Mr. Rhodes argued that the Government's policy of meeting its foreign debt obligations according to contract, restricting the export of gold and purchasing the whole domestic output of this metal, had been fully justified by its results, and, aided by the proved stability of the banking system, had kept the financial repute of Canada high in the outside world. He did not minimise the serious character of certain features of the economic situation, but contended that purely local remedies were unavailing for the cure of conditions created by a depression whose causes and scope were world-wide, and that any

adequate solution must await concerted international action at the forthcoming World Conference, which he hoped would secure a relaxation of exchange controls and other abnormal restrictions upon trade, stabilise currencies and stimulate a rise in the world level of commodity prices.

Discussing the monetary problem, Mr. Rhodes pronounced definitely against schemes either for currency inflation or for linking the Canadian dollar with sterling, and asserted that the Government's policy of letting the Canadian dollar find its own level had resulted in a not unsatisfactory compromise between the ideas of such interests as desired close relations with sterling and those which dreaded the consequences of a heavy and fluctuating exchange premium against the Canadian dollar in New York. But he also intimated that the Government was not wedded to any hard and fast monetary theory, and that it had decided to appoint a Royal Commission on the lines of the Macmillan Committee in Great Britain, with instructions to undertake an investigation of the whole range of Canada's banking and monetary problems, and to frame in its report recommendations which would be a useful guide both to the Ministry and Parliament in the decennial revision of the Bank Act that was due to take place this session, but has been postponed until the results of the World Conference are disclosed. He likewise intimated that the Government favoured the reduction of interest rates on bank loans, mortgages and long-term bonds and, as an incentive to such action, proposed to reduce the rate of interest of post office savings deposits, an example which has since induced the Canadian banks to reduce their interest rates on deposits from 3 to 2½ per cent. Another interesting announcement was to the effect that a few days previously the Government had decided to extend the wheat bonus of 5 cents per bushel paid for the crop of 1931 to the crop of 1932.

For the fiscal year 1933–34 Mr. Rhodes estimated a

revenue yield of 287 million dollars on the existing basis of taxation, against estimated expenditures of 369 million dollars, and then proceeded to explain that the Government aspired to fill this gap by reducing controllable expenditure by about 14 million dollars and levying new taxation calculated to yield 70 million dollars ; he claimed, therefore, the prospect of a small surplus of 2 million dollars on ordinary account. The new taxation included substantial increases in the personal and corporation income taxes, a tax of 5 per cent. on all interest or dividends received by Canadian debtors, if cashed in a currency which is at a premium over the Canadian dollar, and a tax of 5 per cent. on all dividends or interest paid by Canadian debtors to non-residents of Canada. Provision was also made in the budget to close certain loopholes whereby the holders of bearer securities have been able in the past to dodge the income tax, to the substantial loss of the Treasury. The sales tax was maintained at its existing level of 6 per cent., but complete or partial exemptions which had been conceded to different commodities were wiped out. The tariff changes of the budget were relatively few, being confined to some 60 items, and any alterations which will adversely affect British trade are more or less balanced by concessions which will help it. But the most surprising item in the budget was a plan for the creation of an Agricultural Stabilisation Fund designed to assist primary producers who are exporting to the British market and to offset the unsettling effects of fluctuating exchanges. From this fund there will be paid on a variety of exports, which include livestock, meat, bacon, poultry, fresh and canned fish, tobacco, cheese, milk products, canned fruits and vegetables, eggs and honey, a bonus representing the difference between the price actually received and what it would be, if sterling had in Canada a value of $4·60.

The budget made no provision for extraordinary expenditures like the Canadian National Railways deficit, which cannot fail again to be very heavy, but it showed a

determination on the part of the Government to achieve a balance on what are now regarded as the ordinary accounts. It was the subject of debate which, lasting till April 12, was marked by the usual partisan controversy about tariff policy and other matters, but produced few interesting speeches and was notable for the fact that, for the first time for many years, both the Premier and the Leader of the Opposition abstained from participation in it. The Liberal line of criticism was that the budget's contents furnished convincing proof of the incompetent stewardship of the Ministry, that the taxation changes bore more heavily upon the poorer than the richer classes, that the Agricultural Stabilisation Fund was a foolish and wasteful adventure, and that the Government's persistence in a policy of rigorous protectionism stood condemned by the progressive shrinkage of Canada's foreign trade and the deplorable plight of all the basic natural industries. The agrarian representatives in the Co-operative Commonwealth Federation group directed their chief fire against the ministerial devotion to monetary orthodoxy, and the Labourites to its mishandling of the unemployment situation.

The Conservative defence was that the budget represented an honest and courageous effort to cope with abnormal circumstances, and that Canada would court a grave crisis, if her economic bosom was bared any further to world competition by the tariff reductions which the Liberals urged. In the course of the debate, however, the Government was compelled to make concessions which will probably wipe out the anticipated surplus; protests from organisations of ex-service men forced it to withdraw a proposal that war veterans who held posts in the civil service should lose their pensions, and the hostile attitude of the London Stock Exchange to the projected levy on dividends and interest paid to non-residents of Canada induced Mr. Rhodes to announce that it would be modified to exempt bonds guaranteed by the Canadian Government

from it. Eventually, after a Liberal amendment, which was a general arraignment of the Government's policy and amounted to a vote of no-confidence, had been defeated by 119 votes to 63, and a Co-operative Commonwealth Federation amendment, which urged immediate inflation of the currency and correlated changes in financial policy, had shared the same fate by 171 votes to 13, the Government got its budget passed on April 12 by 107 votes to 72; it had the support of one solitary western agrarian, but the rest of the Opposition groups voted solidly against the budget.

The Railway Bill, which embodied most of the recommendations of the Duff Commission on transportation, had been expected to provide the sharpest controversies of the session, for some of its terms were notoriously unpalatable to the Canadian Pacific Railway, which from the moment of its production embarked upon a vigorous campaign of propaganda against it. When it was submitted to the Senate last autumn, the political friends of this corporation made strenuous efforts to secure amendment which would at least eliminate the plan for compulsory arbitration of points in dispute between the two great railway systems, but the Government stood firm against any but minor amendments. When the Bill reached the Commons, rigid party discipline was applied to prevent any insurgency in the Ministerial ranks on behalf of the C.P.R., and a division of opinion was found to exist in the ranks of the Opposition. The great majority of the Liberal party, while willing to accept the general principles of the Bill, objected to the Government's abandonment of all responsibility for a great national property to a Board of Trustees, and feared that its real objective was to pave the way for merger of the two systems under C.P.R. control, but a substantial element in the party and most of the Independents thought that the proposed legislation was worth a trial, and so the Government, although it has not yet secured a passage for the Bill, has been able successfully to resist all amendments.

Apart from the railway legislation, the most important measures before Parliament were a Redistribution Bill and a Bill to amend the Canada Shipping Act. The Redistribution Bill was turned over to a special Committee of the Commons, and in the course of its deliberations there were the usual bouts of partisan squabbling about the readjustment of electoral divisions, necessitated by changes in the balance of population revealed by the last census. Urban members on the Conservative side tried without much success to get the discrepancy between the population quota for urban and rural divisions, which has always been much smaller for the latter, lessened, and representatives of Nova Scotia put up a heroic but unavailing fight against the province's loss of two Federal members which the result of the census decreed. On most of the disputed points acceptable compromises were reached, but on others no agreement could be achieved and, in view of the plans for an early prorogation, it seems altogether probable that the passage of the Redistribution Bill will have to be postponed till next session. A similar fate probably awaits the new Shipping Bill, which is a very voluminous measure of some 800 sections and aims at giving Canada full control of her own shipping in conformity with the new constitutional régime created by the passage of the Statute of Westminster in all the parliaments of the Commonwealth.

An interesting development of the session was the re-emergence of the old and thorny problem of trade relations with the United States. Utterances of Mr. Roosevelt during the recent American election had made it reasonably clear that he was ready and anxious to negotiate a reciprocity treaty with Canada, and when Mr. Duff, a Liberal from Nova Scotia, moved a resolution advocating that, in view of the manifold benefits which would accrue from a fair reciprocity treaty, the Canadian Government should lose no time in opening negotiations, Mr. Bennett, who had been one of the most vehement

opponents of the Taft-Fielding pact in 1911, somewhat surprised both the country and his party by acknowledging that freer trade relations with the United States would be very valuable to Canada, and intimating that the Government could not refuse to examine any reasonable offer of trade reciprocity, provided that there was a guarantee of some permanence for any treaty that might be arranged. Mr. Mackenzie King and other Liberals indulged in satirical commendations of the conversion of a Conservative Ministry to the merits of the traditional Liberal policy of reciprocity with the United States, but argued that, desirable as an equitable reciprocity treaty was, it was unattainable by a high protectionist administration in Canada, and that its commitments in the Ottawa agreements were an insuperable obstacle to a treaty of any value. Since this debate officials of both countries have been engaged in exploring the possibilities of a trade bargain, and Mr. Bennett during his recent visit to Washington discussed the problems involved with Mr. Roosevelt, but the negotiations are still in the embryo stage and will be held in suspense until the World Conference has taken place. In the debate Conservative speakers followed Mr. Bennett's lead and gave a guarded approval to the idea of negotiations, but Conservative papers like the *Montreal Gazette* had been manifesting some disquietude about the idea of a reciprocity treaty and asserting that it is unwise for a Conservative Ministry *infandum renovare dolorem*.

II. Canada and the Far East

THAT Canada is a Pacific Power is only gradually being realised in the central and eastern provinces of the Dominion. Once one comes east from British Columbia and the prairies to Ontario, Quebec and the maritime provinces, the Far East becomes ever more remote. In western Canada public opinion on political and economic

questions may be fashioned to some extent by consideration of the effects of certain policies on our relations with Pacific countries, but in eastern Canada almost no weight is given to this consideration. It is significant that during the Sino-Japanese crisis the eastern Canadian press has on the whole tended to be pro-Japanese, the western press pro-Chinese. Perhaps the holding of the fifth Conference of the Institute of Pacific Relations at Banff in August this year may help eastern Canada to realise that the Dominion is a Pacific Power and that this fact affects her trade and the domestic and foreign policy of her government. The remarks that follow are concerned only with Canada's relations with China and Japan, since her relations with the Soviet Union complicate the problem too greatly to permit of treatment in a short space.

It is comparatively simple to study the past development of Canadian trade with China and Japan, but it is not at all easy to gauge future possibilities. Canadian exports to Japan increased in the period from 1920 to 1929 from a total of about $7 million to one of $42 million; while our exports to China nearly quadrupled in the same period, amounting to about $24 million in 1929. But even when Canadian exports to China, Japan and Hong-Kong were at their height in 1929, they constituted only about 5 per cent. of all Canadian exports, and only about 3 per cent. of the total Japanese imports and 1 per cent. of the total Chinese imports. Our visible imports from the Far East did not show any particular increase in this period. The imports from Japan even showed a slight decrease from 1920 to 1929. In the latter year they stood at about $13 million. From China, Canadian imports increased, but even in 1929 they were only about $3 million. During the first year of the depression Canada's exports to Japan shrank less rapidly than her exports to Germany and the Netherlands, so that Japan instead of being Canada's fifth best customer became her third best customer. This sounded magnificent in orations about the possibilities of

Canadian trade with Japan, but Japan came a pretty poor third—Canada's exports to the United States being seventeen times as valuable as her exports to Japan, and her exports to the United Kingdom being over nine times as valuable. From 1930 to 1933 Canadian trade with the Far East has shrunk even more than her trade as a whole.

This decrease in Canadian trade with the Far East should not blind us to the possibilities of its development in the future—if international trade has any future. The Canadian Chamber of Commerce sent a trade mission to the orient in the autumn of 1930. In the words of its chairman, it returned confident that "Japan, China and Hong-Kong constitute Canada's richest potential market." The delegation argued that Japan offered an expanding market for three groups of Canada's primary or semi-manufactured products : wheat and flour, lumber and wood products, and minerals. China, they thought, was a potential market not only for such products but also for fully manufactured goods. The delegation laid special stress on the large potential market for wheat in the orient, should the standard of living of the population rise.

The delegation did not suggest how exports from Japan and China to Canada could be increased. They contented themselves with recommending that an attempt should be made to import directly to Canada from the orient, rather than through other countries, as this would improve the visible trade balance. The truth of the matter is, probably, as Professor H. F. Angus has written, that

> the future purchasing power of China and Japan is not likely to be derived from sales to Canada, and (Canadian) trade with the orient is likely to be dependent upon some very elaborate three, four, or five cornered exchange, which brings back the price of our lumber and our grain in the form of English woollens or in the extinction of past indebtedness.*

The expansion of Canadian trade in the Far East is therefore dependent not only upon the establishment of

* *Economic Problems in British Columbia.* (*Contributions to Canadian Economics.* Vol II, 1929, p. 48) By H. F. Angus.

order in the Far East, and a rise in the standard of living there, but also upon a restoration of international trade in general so that the five-cornered exchange may be possible.

It is, of course, dependent also upon good feeling between the Far East and Canada. The deadly weapon of a boycott might wipe out most of our trade with China, even if the world manages to fight its way to stability and prosperity. Bad feeling between Canada and the two great oriental Powers has in the past arisen in the main from Canada's restrictions upon oriental immigration and from her treatment of orientals within Canada. As almost all the Japanese and the majority of the Chinese in Canada live in British Columbia, that province has been the scene of most of the legislation directed against orientals in the last sixty years.

Popular feeling against the Chinese and Japanese in British Columbia reached its height about 1907 when anti-Japanese riots occurred in Vancouver. This resulted in Mr. Mackenzie King being appointed a government commissioner to investigate the affair, and in Mr. Rodolphe Lemieux being sent to Japan to arrange a "gentleman's agreement." Under this "gentleman's agreement" the Japanese government itself undertook to limit qualitatively and quantitatively Japanese emigration to Canada. Japanese immigration into Canada has, as a result, been cut down to a mere trickle—only about 350 Japanese a year entering in the period from 1925 to 1929. So far, therefore, as the treatment of Japanese immigration is concerned the relations between Canada and Japan are quite harmonious; certainly much more harmonious than the relations between Japan and the United States since 1924, when the United States cancelled their "gentleman's agreement."

The reverse is, however, true of the relations between Canada and China. Starting in 1885 a head tax was imposed on all Chinese entering the Dominion. It was $50 to begin with and had increased to $500 by 1904. It resulted in 80,000 Chinese paying Canada $18 million

for the privilege of entering the country. In 1923 the head tax was abolished and a Chinese Immigration Act passed which might more properly have been called a Chinese Exclusion Act. As a result of its provisions only four Chinese immigrants were admitted to Canada in the five-year period from 1925 to 1930. What is offensive to China in this Act is that she is singled out by Canada for arbitrary treatment. If she does not get at least the same treatment as that accorded to Japan, she may, as soon as she can afford the luxury of quarrelling with western nations, boycott Canadian goods. It is indeed possible that Canadian goods would have been boycotted by now had not the Japanese come to Canada's assistance by creating a diversion in Manchuria.

So much for the Canadian laws on the immigration of orientals to Canada. What of their treatment when once admitted? What happens when the culture of the Far East comes into contact with the culture of the West?

Although taking the Dominion as a whole, persons of Chinese or Japanese origin and descent constitute less than 1 per cent. of the population; in British Columbia they are numerically quite important. According to the 1931 census there were in that province 27,000 Chinese and 22,000 Japanese out of a total population of about 700,000. The Chinese and Japanese constituted, that is, about 7 per cent. of the population. There is no reason for believing that the Chinese population of the province, or of Canada, will increase. In the first place, out of 47,000 Chinese in Canada, only 3,500 are females. Secondly, no immigration is permitted. Thirdly, hundreds of Chinese every year are now relinquishing their right to live in Canada. Probably in twenty years' time only a small Chinese community will remain. There is, on the other hand, reason to believe that the Japanese population will increase, since the Japanese are allowed to bring their wives into the country and their birthrate is high.

In any event, whatever the future possibilities may be,

the British Columbians think that orientals should be discouraged from living in Canada, and, aided by the Federal government, they have passed legislation, discriminating against them, regardless of whether or not they are Canadian citizens by birth or naturalisation. British subjects of Asiatic race are excluded from the professions of law and pharmacy. They are not given the municipal, provincial or federal franchise in British Columbia unless they served in the Canadian forces during the great war. With that exception they are excluded from election to the provincial legislature, from municipal office and from jury service. How long this policy of racial discrimination will persist in Canada it is impossible to say. An acquaintance with its more unpleasant features is recommended to anyone wishing to prick the bubble of the self-esteem of a Canadian prating about the way in which Canada has led the world by her treatment of racial minorities.

Canada's contacts with the Far East are not only in trade and immigration, but in many other ways as well. The Gest Research Library at McGill University is said to be the most outstanding and comprehensive Chinese library on the continent. McGill has also appointed recently a professor of Chinese language and literature. In Toronto, the Royal Ontario Museum has concentrated its attention upon building up a Far Eastern art collection, the Chinese section of which is internationally famous. The churches in Canada have also an intimate contact with the life of the Far East, about two-thirds of the foreign mission efforts of the Protestant churches being directed towards China, Japan, Korea and Formosa.

The most important of all the ways, however, in which the Far East has influenced Canada since the war has been by its effect upon her foreign policy. Canada's foreign policy with regard to the Far East must be determined in part by the desire of her exporters to the orient for a stable market. She consequently desires, as we have seen, stability in the Far East and, of course, the "open door,"

and also an ordered international society. Her policy will necessarily be affected too by her desire for freedom from entangling alliances; by her political attachment to the British Commonwealth; by her economic and geographical attachment to the United States; and by her membership of the League of Nations. It is the fact of her economic attachment to the United States and her political attachment to the British Commonwealth which makes it essential for her that there should be no fundamental divergence in foreign policy between the United States and the United Kingdom. It is her position on the North American continent and her growing interest in the Pacific which make her foreign policy on Far Eastern questions usually identical with that of the United States. Thus in 1921 she opposed a continuance of the Anglo-Japanese Alliance, for she was well aware of the growing tension between the United States and Japan which had followed the war, and of the consequent possibilities of Anglo-American ill-will were the treaty renewed. It is curious, therefore, that when a similar divergence between the policies of the United States and of the United Kingdom governments arose in 1931, and a similar tension was created between the United States and Japan, Canada did not play once more the rôle of 1921. Instead, her representative at Geneva, the Secretary of State, Mr. Cahan, delivered on December 8, 1932, the most pro-Japanese speech that was made in the special Assembly by a non-Japanese speaker. Rumour has it that the American representatives at Geneva were up in arms over this desertion of the North American position.

That this speech constituted only a temporary and unauthorised aberration in Canadian foreign policy can be shown fairly conclusively from an examination of its text, and from certain events which have subsequently taken place. A perusal of the text suggests that this speech had two authors: the author of the first part being Mr. Cahan, and the author of the second part, the Department of

External Affairs. The second part was good League doctrine. The first part was unexpectedly pro-Japanese. The first part so overwhelmed its hearers in the Assembly that they did not take in the second part. Yet, it was this unnoticed second part and not the sensational first part which represented the policy of the Canadian Government. Further evidence of this is furnished by the speech of the permanent Canadian advisory officer at Geneva, delivered some two months later before the Assembly. This speech of Dr. Riddell's, the text of which had been cabled to him from Ottawa, constituted, if one reads between the lines, a virtual retraction by the Canadian government of what Mr. Cahan had said. Thus Canada has once more returned to that traditional policy in Far Eastern affairs which is dictated by her position on the North American continent.

The strain put upon the relations between Canada and the United Kingdom because of the divergence of policy between the governments of the United States and the United Kingdom on the Sino-Japanese dispute has not yet had time to show its full effects. It may be that Sir John Simon has thrown Canada into the arms of the United States, as Professor Arnold Toynbee asserted at Chatham House in February last year. Be that as it may, the events of the last two years have shown how difficult it is for Canada and the United Kingdom to co-operate on foreign policy in matters concerning the Far East, because of the fact that the foreign policy of the United Kingdom is at present dominated by European considerations, whereas the interests of Canada will in future be bound up more closely with Far Eastern than with European developments. But only a few Canadians are at present giving any consideration to the effect of Far Eastern affairs on Canada's future relations with the United Kingdom. Most of us are fervent believers in the doctrine of *solvitur ambulando*.

Canada.
May, 1933.

AUSTRALIA

I. The Reform of the Legislative Council in New South Wales

BY the constitution of New South Wales it is provided that the Legislative Council shall not be abolished, nor can its constitutional powers be altered, except in certain immaterial respects, unless the Bill intended to bring about the abolition or alteration has been approved by a majority of the electors after having been passed by both Houses of the Legislature, and by the same section the requirement of a referendum is made to apply to any Bill for the repeal or amendment of this section. This section was introduced into the State constitution by amendment in 1929, and its validity has since been upheld by majorities of the Supreme Court of the State and of the High Court and by the Privy Council. Bills for the abolition of the Legislative Council and for the repeal of this section were passed by both Houses under the Lang Government, but as they were not submitted to a referendum they were of no effect.

A Bill to alter the constitution and powers of the Council was passed through both Houses by the Stevens Government, and is to be submitted to a referendum on May 8. The Bill provides for the establishment of a House of sixty members and for a system of indirect election. Any person entitled to vote at a parliamentary election may be a candidate, but the only electors to the reconstituted Council are to be the members of the House of Assembly and of the Legislative Council of the State, and they alone will be entitled to nominate candidates for election. At the election the two Houses will vote as one constituency with separate polling places, and the voting will be on the proportional system. At the first election it will be necessary to elect sixty members, but at subsequent elections, fifteen only. Of the sixty first elected the fifteen who obtain the highest number of votes will retain their

seats for twelve years, the second fifteen for nine years, the third for six and the last fifteen for three years, the period of the life of the Legislative Assembly.

The reconstituted Council can amend or reject all Bills except the annual appropriation Bills. If it delays an appropriation Bill for more than one month after it has passed the Assembly the Bill may be presented for the Royal Assent, but if the Bill contains provisions which do not properly belong to an appropriation Bill they may subsequently be declared invalid by the Court. With the exception mentioned, the historic distinction between money Bills and ordinary Bills is not maintained.

The Council will have power to amend or reject all Bills other than appropriation Bills, but only for a limited time. If the Legislative Assembly persists in its support of the amended or rejected Bill, and negotiations, either in the form of conferences between the Houses or through managers, prove fruitless, the Government, after an interval of seven months from the first rejection, may submit the rejected Bill to a referendum to be held either at a general election or at some earlier date. If at this referendum the Bill is approved by a majority of the electors, it may become law without the assent of the Legislative Council.

The section of the constitution quoted above provides that "the Bill" must be submitted to the electors. It follows that at the referendum the electors will not vote on the abolition of the Council, nor will they be offered a choice between different forms of franchise, or differently constituted electorates. The only choice will be between the Council as proposed in the Bill and the continuance of the existing nominee system.

The critics of the Bill may be divided into three classes, those who claim that there should be no second Chamber, those who maintain that the nominee system should be preserved, though with some modification, and a third class who favour a directly elective Council, though without detailed exposition of its franchise or constituencies.

The present scheme was not adopted until after a thorough examination of possible alternatives. It was suggested by the Bryce report, and it is thought to have fewer disadvantages than any of its rivals. A franchise based on age or property might not have been acceptable to those electors who would be asked to disfranchise themselves. Constituencies made up of a number of State or Federal electorates would have imposed great expense on candidates, would almost certainly have involved some form of payment of members by the State and would have increased the power of the party machine. The conditions essential for the satisfactory working of the nominee system had ceased to exist. One of the chief advantages claimed for that system was that it offered an opportunity for parliamentary service to men of experience and ability who could not, or would not, take part in a general election with its expensive preliminaries. But party spirit has been so far developed in New South Wales that Ministers, when advising the Governor, are bound to place obedience to the Whips before these other qualities. Again, in former times, the position of a Governor was such that he could resist an attempt to swamp the Council unless it could be shown him that he was resisting a mandate of the electors. To-day, it is at least doubtful how far a Governor could or would resist the demands of his Ministers, however arbitrary, provided only that they had a majority of one in the elected House. The result is that a Governor must either treat the Council as if it had no power to restrain legislation, or expose himself to the charge of partisanship. The continuance of the nominee system might suggest a means of destroying the Council by a *reductio ad absurdum*; it can no longer provide a House which will protect the electorate either against itself or against its leaders.

The powers of the reconstituted Council, though limited, will be very considerable. It cannot finally prevent the passage into law of any measure which is approved by the considered judgment of a majority of the electors, but

it can delay the enactment of any proposed law, and it can force a Government to submit any of its proposals, other than those for current expenditure, to the expensive process of a referendum. It is not to be anticipated that this power will be used indiscriminately. The present nominee Council has almost invariably taken the view that it is its duty to pass legislation which is backed by a clear electoral mandate, and the new Council will, in all probability, do the same. But the new Council will be in a position to act without the fear of being swamped, and it may be expected to exercise its powers to the full if it believes that the Government of the day has lost the confidence of a majority of the electors.

The most novel feature of the Bill is the introduction of the referendum as a means of settling differences between the two Houses. In the constitution of the Commonwealth alterations can be made only if approved by a majority of the electors voting at a referendum, and by a majority of the States. In the States the referendum has been used as an occasional device to relieve Parliament, or Ministers, of responsibility, but hitherto it has never been regarded as a normal method of settling differences between the two branches of the legislature. In those States in which the Upper Houses are elected the only method is by conference. In New South Wales, which at present is the only State with a nominee Council, a government which finds itself in a minority must either ask, or threaten to ask, the Governor for new appointments, or endeavour to obtain the moral authority of an express mandate at a general election.

The referendum has, its supporters claim, unquestionable advantages over any other alternative. It places the amended constitution on a democratic foundation. The new Council can reject measures brought forward by the Government, but it cannot prevent any change being made if the electors, after an opportunity for full consideration, desire it, and if the Government is willing to risk invoking

their decision. It will have power to protect the people against a government which infringes its electoral pledges, but it cannot protect a minority against a majority.

Another novel feature of the Bill is that it gives a Minister who holds a seat in the House of Assembly the right to address the Council on a Bill of which he has charge, a feature which was once proposed for the Commonwealth Senate, but has not hitherto been adopted.

A third feature, as already mentioned, is that the reformed constitution, except in the case of appropriation Bills, abolishes the traditional distinction between money Bills and ordinary Bills. In some of the Australian States the Upper House is given by statute certain powers of amending money Bills. In the proposed new constitution it is recognised that a Bill, nominally imposing taxation, may be a means of bringing about fundamental social changes, and the distinction is abolished, so that the very difficult problem of interpreting the definition of a money Bill, which is assigned to Mr. Speaker under the Parliament Act in Great Britain, is avoided.

The proposal will meet with formidable opposition, for which some of the reasons have already been suggested. The electors will have to approve, or disapprove, of the Bill as a whole, and many will vote "No," because they do not understand, or do not approve of, one or more of its clauses; others will do so because, although they approve of the reform of the Council, they prefer a popular election on a restricted franchise. But the two main arguments of the Opposition are that there should be no second Chamber at all, and that under the proposed system of election, as the Houses are at present constituted, a majority in opposition to Labour is assured for some years to come. The abolition of the Council is advocated by both branches of the Labour party in New South Wales, and has twice been attempted by Mr. Lang, to be defeated on the first occasion by the secession of some of his pledged supporters, and on the second by the constitutional amendment referred to above.

It is claimed, possibly without giving sufficient weight to the changes which have taken place in recent years in the rigidity of party discipline and in the relative positions of Parliament and the Executive, that the only democratic form of government is by a single chamber elected on a universal franchise. The second ground of opposition is founded on the size of the Government majority in the House of Assembly. It is claimed that, even under a system of proportional representation, the present Government will be able to insure that its nominees will maintain a majority in the Council for at least nine years, and that no Labour legislation can be passed without being put to a referendum.

The argument appeals to those opponents of Labour who regard politics as a sport, and would have additional force if supporters of the Government could be counted upon to adhere to a party ticket as faithfully as their Labour opponents; but it can be said for the sponsors of the Bill that they advocated the same system of election when they had no majority, and it remains to be seen whether those who rely on this argument will be converted when they realise that a majority in the Lower House can at any time bring about a referendum on the question whether the Council should be abolished or its constitution altered.

It is scarcely questioned, except by a very few, that the nominee Council has done very valuable work in the past. It has included men of experience, ability and independence, whose services to New South Wales, more particularly in recent years, have been inestimable. It has seldom, if ever, resisted a measure which has been approved at a general election, but it has protected the people against measures which are clearly outside the mandate of the Government, and against a Government which, like the recent Lang Government, seeks to bring about radical changes without popular approval. There can be little doubt, however, that the nominee system has ceased to be practicable. The Council now consists of 122 members. Of these, 22 were nominated on the advice of the present

Premier, Mr. Stevens, 25 by Mr. Lang when last in office, and 25 by Mr. Lang in his previous term for the express purpose of abolishing the Council. If a Labour Minister were to succeed Mr. Stevens he would probably claim that still more appointments were necessary to enable him to carry his policy into effect.

The Council, as at present constituted, has shown the value of a revising chamber and of independent criticism even when the Government has a majority, and it probably contains more knowledge of the problems of urban and rural industry than any other Parliamentary Assembly in Australia; but the nominee system depends on conditions which no longer exist, and have not existed for some time past. It must give way to an elective system, either to the system of indirect election proposed by the Bill, or to some form of direct election with the disadvantage of adding one more to the troubles of an already harassed electorate. But the effective existence of the Council is not really compatible with the existence of theories of government which would convert Parliament into a machine for registering the decisions of a dictatorship constituted either by the Executive or by an outside organisation which controls the Executive.*

II. The Political Chronicle

APART from the Test Matches, with their rather extravagant reverberations, and from some important decisions made at the Loan Council in February, the quarter under review has been one of preparation rather than one of achievement. Forces have been shaping themselves for a new phase in Australian politics. The last phase was dominated by the Premiers' Plan of June, 1931, and the Plan will doubtless be the foundation of Australian political life for some time to come. But the country is coming to the end of the first phase of its influence. We are now

* The referendum has now taken place. The figures were: For the Government's Bill, 643,716; against it, 622,774.

ing the end of the second year of the Plan's operation, apart from unforeseeable developments it is now ible to say that it has to a considerable extent succeeded s main objective—to check the dr'ft in governmental ıce and to restore budgetary equilit ium. It is out of success of the Plan that the polic. :s and objectives he next phase in Australian politics will grow; their ially obscure beginnings have been discernible in the ɔd now under review.

n the one hand, the Labour party, disrupted by the , has been seeking some fresh basis of unity. Three ɔur Ministries accepted the Plan—Mr. Scullin's in the ımonwealth, Mr. Hogan's in Victoria, and Mr. Hill's outh Australia. All of them were vigorously assailed, ι in Parliament and in the party organisation outside, ıving betrayed Labour principles by imposing, in return a reduction of interest rates on the internal public , salary and wage reductions throughout the public ces. In some cases, members who had supported the have actually been expelled from the party. In Vic- , unity was achieved by "dropping" the two leaders essrs. Hogan and Jones—who refused to abandon the in preparation for the State elections last May. Mr. as his own State elections approached, found the ɔur party organisations outside Parliament so hostile he was fain to approach the Liberal Opposition some months ago with offers of a coalition; but this was diated by his own supporters in Parliament, and he was ınate to be able to beat a strategic retreat to the Agent- :ralship for South Australia in London. His party, :r the leadership of Mr. Richards, is now going to the try in support of the Plan, but has been quite unable to olidate on this basis the Labour forces in the con- encies. In Queensland the Labour Government in : also supports the Plan, though with some modifica- ; and to the accompaniment of a good deal of criticism de Parliament. In the Commonwealth Parliament

Mr. Scullin's diminutive band appears to be still evading the issue; but otherwise all the Labour Oppositions are now agreed in denouncing that part of the Plan which provides for reductions in public service salaries and wages and in social services. Indeed, the Labour party organisations in the constituencies have been so hostile to this part of the Plan that its acceptance by any section of the party can only be temporary and precarious.

It is not merely along these purely negative lines, however, that the Labour party is seeking unity. The proper and just way to balance budgets and banish unemployment is not, says Mr. Scullin, to reduce salaries and wages and pensions, because that only reduces the spending power of the masses; it is to restore the price level of 1929 by the provision of credit and to keep out imports. He claims that when he was in office himself he did keep out imports; that but for the Senate he would have raised the price level too by increasing the fiduciary note issue; and that even then the same result could have been reached but for the "selfish" and "greedy" and "restrictive" policy of the banks. In vain the banks point to the assistance rendered by them in providing gold and foreign exchange reserves for meeting external obligations, and the great extension of credit represented by the issue, under the authority of the Commonwealth Bank, of Treasury bills for the internal floating debt of £52,000,000. "You might have done ever so much more," is the reply. A return to the Scullin-Theodore policy of 1930 thus becomes the starting point for Labour's new policies. To begin with, banking and credit must be nationalised ("socialised" is the current term). And since imports must be reduced, and the Ottawa agreements, if duly implemented, must necessarily involve larger imports from Great Britain, the Ottawa agreements must be opposed too. Here are the issues which are being formulated for the next Commonwealth elections, still over eighteen months ahead—the "socialisation of credit" and the Ottawa agreements.

The strongly urban Labour organisations in New South Wales and Victoria (particularly the former) have swung still further to the left. This was one of the inevitable results of the downfall of the party in both Commonwealth and State elections. In their defeat they have been flung back once more on the things the party stands for, and researches into the "platform" have resulted in a fresh emphasis on the "socialisation" plank at the recent summer conferences. Socialisation of industry as a whole was declared to be the objective in both Victoria and New South Wales. Mr. Lang, indeed, was heard in an unfamiliar rôle—begging a metropolitan conference in Sydney not to adopt wild resolutions but to concentrate for the present on one moderate objective alone—the socialisation of credit. This plan was presumably put forward as a basis on which some unity might be restored within the party. But the conference in Sydney swept it aside, and declared uncompromisingly for socialisation entire, though this declaration is not binding on the whole movement, and may even be revised at a forthcoming State conference. Socialisation is not—for some years at any rate—an election-winning programme, and it does not seem very likely to make much of an appeal to primary producers. But a party which declares for an idea is a party to be watched.

The non-Labour parties—the "parties of resistance"—cannot sum up their future in any simple and attractive slogan to compare with "socialisation," and the very success of the Premiers' Plan really raises serious problems for them. For it tends to induce a too-confident belief that Australia's recovery is now assured, and that the country has "said good-bye to depression"—with the inference, of course, that further talk of economies and reductions and stringency and effort is all rather tiresome and unnecessary. For this reason the repetition in February of the now familiar conflict between the Loan Council's desire on the one hand to get from the Common-

wealth Bank further credits to finance public works for the relief of unemployment, and the Bank's desire on the other to prevent the continuance of the period of treasury bill finance, has had a useful effect on the public mind. When the Loan Council met, the Bank gave way, as before, and agreed to make £4 million available for works in the current year. But the Council for its part agreed to finance loan works during the coming year by means of public loans only, and to apply to the funding of the floating debt any surplus moneys raised. This agreement will, in the present state of the market, impose some check on loan expenditure. So far, too, as concerns expenditure from revenue, the figures supplied to the Council showed that the estimated deficits for the current year are actually below those provided for in the Plan. This represents a really remarkable change in the financial position of the governments, and offers substantial hope that, with the continuance of good seasons, budgets will be balanced by June 30, 1934, as originally contemplated in the Plan.

The non-Labour parties are pledged to attempt the restoration of prosperity within the framework of existing institutions, and they will get the credit for a notable improvement in business conditions within recent months. That improvement has been based partly on the way in which Australian monetary policy has sustained the internal price level, and partly on the bounty of Nature, which through successive good seasons throughout the crisis has enabled the producers, with hard work, to maintain and even increase the volume of exports.

This maintenance of the volume of exports has in fact preserved Australia from default on her overseas debts. But it gives rise to two exceedingly pressing problems. One is the maintenance, and if possible the extension, of markets abroad. Hence the Ottawa agreements are a vital part of the present Commonwealth Government's policy. (But the Ottawa agreements themselves in turn raise further problems for the Commonwealth Govern-

ment, because the protectionist forces within the United Australia party are strong enough seriously to threaten its unity if the implementing of the Australian obligations under the agreements appears to sacrifice Australian manufacturing interests too much. The real fight over the Ottawa agreements has in fact still to come in the Commonwealth Parliament, and is due to begin in the new session in March.) The other problem affecting the volume of exports is climatic. A bad season or two is by no means beyond the range of present possibility, and bad seasons would attack Australia's present stability at its very foundation. Indeed, even the present position of Australian primary industry is such as to give continued cause for anxiety. Prices remain low, or even fall lower; there has been a drastic decline in the price of butter, resulting in attempts to persuade the producers to reduce by 6 per cent. the amount to be exported in the ensuing year. These factors make the Commonwealth Government very anxious to lighten as soon as possible the demands made upon the export surplus for service of the overseas debt. The satisfactory progress of the Premiers' Plan affords favourable conditions, at this end, for conversion operations. It may be added that a reduction of overseas interest should, if present prices continue, make possible a higher level of imports, and so should in effect increase the Australian market for British goods.

Both the Labour Government in South Australia and the United Australia party Government in Western Australia are to face the electors on April 8.* Perhaps more important than the actual result of either election is the State referendum to be held in conjunction with the Western Australian election on the secession issue. The result of the poll will be known before these pages are read,

* The results of the elections were as follows:—*South Australia:* Liberal and Country parties, 28; Labour party, 10; Independents, 4 (four returns not included). *Western Australia:* Nationalist party, 8; Country party, 12; Labour party, 30.

but it may perhaps be useful to include here some discussion of the issues in the secession campaign. The electors are to be asked two questions:

(1) Are you in favour of the State of Western Australia withdrawing from the Commonwealth?

(2) Are you in favour of a convention of representatives of equal number from each of the Australian States being summoned for the purpose of proposing such alterations in the constitution of the Commonwealth as may appear to such convention to be necessary?

The better opinion among lawyers appears to be that even a unanimous affirmative answer could not in either case have any legal effect. Some leaders of the secessionist movement in the west profess the hope that, while a vote in favour of secession would not suffice to amend the Commonwealth constitution, nevertheless a vote sufficiently strong would induce the Imperial Parliament to exercise its paramount legislative power and sever Western Australia from the Commonwealth by an Imperial Act, regardless of the wishes of the Commonwealth and of the other States. There appears to be no foundation whatever for such a hope. Nevertheless, a strong affirmative vote, on the secession question at any rate, would be a more important thing than is commonly supposed in the eastern States, where the whole campaign has been generally either ignored, or too summarily dismissed as mere disgruntled vapouring.

The fact that the movement is supported by Sir James Mitchell, the present Premier—though he pushed secession into the background in his recent policy speech—and by other prominent citizens of the State, including Sir Hal Colebatch, the new Agent-General, is sufficient reason for paying some serious attention to the campaign. There are indeed hot-heads in the west who declare that if Western Australia cannot withdraw legally, she will withdraw illegally. Such declarations may be discounted. The overseas investor need scarcely fear for the stability of constitutional government in Australia, even if an affirmative vote is given in answer to both questions on April 8. Nevertheless an affirmative vote (which appears to be likely) is bound to have

important consequences. The secession campaign, in the minds of many Western Australians, is not so much a means of breaking up the Commonwealth as a means of expressing a widespread feeling in the State that federation has produced unfair results in Western Australia, and that the State has grievances which have become intolerable. In other words, the secession campaign may fairly be regarded as an instrument for forcing on the notice of the eastern States some important aspects of federal policy—in particular, the incidence of the tariff and the Navigation Act and the continuous expansion of Commonwealth expenditure. Hence the second question propounded to the electors. An overwhelming vote in favour of a convention for revising the constitution may probably be expected; indeed, the Prime Minister of the Commonwealth has promised in advance to summon such a convention. When the convention meets, Western Australia will almost certainly have the support both of Tasmania and of South Australia and possibly of Queensland as well. The secession issue may thus from one point of view be regarded as to some extent unreal, even in Western Australia. But the energy with which the campaign is being waged in the west presages a very serious attempt in the future to compel the reconsideration of some of the main lines of Australian policy.*

Public opinion in Australia has been extraordinarily confused and not very vocal about the developments in the Far East. The general attitude of the Government has been that it has been in close touch with the British Government, that it has supported the British Government in the

* The result of the secession referendum was as follows: A majority of nearly two to one gave an affirmative reply to the first question in favour of secession from the Commonwealth. The second question was answered in the negative by 119,131 votes to 88,175 against the holding of a convention. The Labour party, which is against secession, won the Western Australian election, as a previous note shows, by a majority of ten seats. (*The Times*, April 10 and May 4, 1933.)

The disabilities of the least-populous States have already been discussed in The Round Table: Western Australia's in No. 66, March, 1927; South Australia's in No. 67, June, 1927; Tasmania's in No. 71, June, 1928.

efforts it was making for conciliation, and that in general the less said in public the better. The Government's policy itself has no doubt been a sound one, and the fact that Mr. Bruce is in London as Resident Minister has afforded the best possible conditions for effective consultation between the two Governments. There was a great deal to be said for the view, expressed by the Minister of External Affairs during the progress of the Shanghai attack, that it was undesirable to discuss publicly in Australia the possibilities of further aggression by Japan in the East. It had been said in the House of Commons that " Japanese aggression in the Far East might become a grave danger to Australia." The Minister promptly deprecated the discussion taking such a turn. It is in fact precisely out of such discussions that international ill-will and suspicion are often manufactured. But it is significant of the present state of Australian opinion on external affairs, that in no ministerial statement since the Sino-Japanese dispute began has there been any discussion either of the possible lines of action prescribed in, or permissible under, the new system of international engagements contracted since the war, and still less discussion of the interest that the Australian people have in the maintenance of a stable international order in the Pacific. The public has become vaguely uneasy, but has been content to follow its cricket matches, and leave *Weltpolitik* to the strong.

Australia.
March 29, 1933.

SOUTH AFRICA

I. The Hertzog-Smuts Alliance

EX *Africa semper aliquid novi*, which may be translated to-day, " South Africa always makes good copy."

Last quarter's record of the course of political events in the Union ended on a note of interrogation. Was there to be a coalition of some kind strong enough to handle firmly the problems that were pressing on the country, or was there to be a continuation of the drift towards a furious general election some time before June 1934, in which the Afrikander folk were to be called upon to close ranks against the intruding Englishmen and the multitudinous Bantu ?

The position in the middle of January was that the Nationalist ministry with a remnant of Labour support had a reduced but still working majority in Parliament. It had, however, been weakened by the loss of prestige that had followed its sudden and unwilling departure from the gold standard at Christmas time, by recent South African party successes at parliamentary and provincial bye-elections, and by a growing realisation of the fact that it could not win the coming elections single-handed. The South African party had polled some 30,000 votes more than it had done at the last election in 1929, and, as General Hertzog has since frankly confessed, most of the Labour men and nearly all the floating electorate that had put the Nationalists into office then and in 1924 were now hostile to them. Finally, the ministry had been shaken by the descent of Mr. Tielman Roos from the appellate bench into the political arena and the rallying of more than one Nationalist member to his coalition banner.

Mr. Roos had first tried to arrange a coalition with the South African party. He had proposed a cabinet of five Nationalists, five South African party men, and one Labourite, under a Nationalist premier, obviously himself.

The South African party in turn had suggested seven of their own number and four Nationalists, with Mr. Roos as second-in-command and, equally obviously, General Smuts as premier. Mr. Roos had unexpectedly and brusquely broken off *pourparlers* and announced that he would collect followers whence he could.

As a result perhaps of a rude reception by excited Nationalists at some of his Free State meetings, Mr. Roos had then threatened to break the Nationalist party and General Hertzog, whom he claimed to have made politically. On the other hand he gave warning that his supporters would not vote for the motion of "No Confidence" which General Smuts was proposing to table.

The scene shifted to Cape Town. General Smuts met with a great popular reception there and prophesied, amid incredulous comment from even friendly newspapers, that there would be a national* government more or less on the British model sooner than most people thought. Mr. Roos had a reception almost as enthusiastic and put forward his vague programme of "no more gold" (which had already been achieved) and "no more racialism" to a crowded gathering in the City Hall.

The Houses assembled in strength on January 20 to face an almost certainly fiery session and a full legislative programme. The first ten days were occupied mainly by General Smuts's motion. It was not formally a motion of "No Confidence," since the Roosites would not vote for that. It was rather a studiously moderate demand for a national government to take the place of a failing ministry which was, willy-nilly, keeping racialism alive by its mere existence, and which was being called upon to reorganise the currency on a non-gold basis after having declared repeatedly that it would never depart from the gold standard.

The Prime Minister, in reply, at once asked for a vote

* Small letters have been used for the "national government" throughout to distinguish it from the National party, commonly called the Nationalists.

of confidence and explained that he had always meant that his ministry would never go off gold voluntarily, that it had been pushed off, as was indeed the fact, and that it meant to stay in office to minimise the evil effects of that lapse from economic rectitude. As for coalition, he declared roundly that a national government would "drag our people further in the way of dissension and bitterness."

The debate certainly became bitter. Behind that bitterness were those personal differences between leaders which have always counted for too much in South Africa—Nationalist fears of the extreme British wing in Natal and elsewhere, whose influence they probably overrated but which they nevertheless dreaded, and Nationalist suspicion of the money power. That last is a fear which the American Middle West would understand. It has run right through South Africa's politics since diamonds were first discovered about the time of the Franco-German war. The fear had been inflamed by the departure from gold which had been resented as a blow to autarchy and an opportunity for speculators and mine owners to benefit by the exchange and the premium on gold at the expense of the man in the street, or rather the man on the farm. Nationalists said openly that they would see to it that the State got much of these fortuitous gains, and that they were certain that their political opponents would deal with the beneficiaries far too gently.

One Nationalist member, son of an ex-President of the Free State, had already been drummed out of the party. Now another, also a son of an ex-President of the old republic, moved over to the cross-benches amid uproar and insult. But the little group of Roosites, and Dr. Steenkamp, an Independent and a power in diamondiferous and drought-stricken Namaqualand, refused to vote for the motion unless General Smuts came to terms with Mr. Roos.

During the later stages of the debate the Roosite members approached the South African party caucus. They sug-

gested a cabinet of seven South African party men and four of their own number under the leadership of their champion, or at the very least of one of his men. The South African party caucus, after consideration, rejected the offer. Frankly, it was not good enough. Mr. Roos's past had been stormy and his programme was still vague in the extreme. There was no guarantee that the Roosites could swing enough votes in the House to unseat the ministry. And supposing they were able? What would be the use of a narrow victory that would simply consolidate the Nationalist phalanx and leave it with the feeling that it had been bounced out of office by an alliance of renegades and political foes? That was the consideration which governed all that followed.

On the day following the breakdown of these negotiations General Hertzog got his vote of confidence. Of the 148 members of the House of Assembly, 146 voted, 66 of them for General Smuts's motion and 80 against, including the Roosites, Independents and two Labour men.

Apparently that finished it. But it was not so. During the debates General Smuts had offered to accept General Hertzog as chief of a national ministry, and before the debates were over the whisper had gone round that the leaders of the two big parties were drawing together.

The situation was, however, very confused during the early days of February. Officially the two main parties glared at one another, and other parties began to take shape dimly. The Roosites accused General Smuts of having ruined a promising scheme by his insistence on the premiership, and began to organise a Coalition Union party with the slogan, "Country before Party," and the intention of getting Mr. Roos in as Prime Minister, dealing with national interests in a non-party spirit, and securing the representation of those interests by men specially qualified to handle them. That last stipulation may have been a protest against the domination of Parliament by lawyers. If it was so, it was emphasised by another programme that

was put forward, this time by a body of business men in Cape Town who sought to mobilise the Chambers of Commerce throughout the Union in favour of a national administration, an end to racialism, and the election of business men irrespective of party.

These two quite separate programmes reflected the widespread popular disgust with existing party feuds and, above all, with the stale and paralysing racial controversy. Meanwhile negotiations were going on behind the scenes between the responsible heads of the two main parties. Perhaps their progress towards an accommodation was hastened by the untimely and universally regretted death of Mr. C. W. Malan, Minister of Railways, and one of General Hertzog's staunchest Cape supporters. Be that as it may, on February 10, to nearly everyone's surprise, the Prime Minister published what was virtually an offer of coalition. Forthwith the construction of cabinets became a popular amusement and a subject for newspaper competitions.

A few days later General Hertzog announced his eight points. The Union must be maintained as a national unit on the basis of the sovereign independence that had been guaranteed to it by the Statute of Westminster; the unitary, as distinct from a federal framework of the constitution, must be preserved; the national flag and equality of language rights must be upheld. Further, agriculture was to be cherished and a "civilised labour policy" pursued; the Joint Select Committee, which had been ruminating over the ministry's Native Bills for the past year or two, must be spurred on so that these measures could be carried speedily, and, lastly, the Union's money values, capital assets and sources of capital must be protected.

Negotiations were undertaken at once on that basis by the "Big Four," the Prime Minister and Mr. Havenga, Minister of Finance and his chief's right-hand man in the cabinet and the Free State, on the one hand and, on the other, General Smuts and Mr. Patrick Duncan, one of the

few survivers in South Africa of Lord Milner's young men and an ex-Minister. There was little difficulty about most of the points. Everyone took for granted the Statute of Westminster, the flag, and equality of language rights. Neither party could do anything but support civilised, that is in effect white, labour, and agriculture. General Smuts, opponent-in-chief to the federal idea at the National Convention of 1908 which made the Union, could hardly envisage any serious weakening of the unitary constitution. But it was an open secret that there was difficulty over two major points: the relations of the four provinces to the Union, and the Native Bills. On the first head, many of General Smuts's followers, and the Natal men in particular, were set upon something much nearer federation than anything that exists at present. On the latter, the South African party was notoriously divided, one influential section holding on grimly to all that is still possible of the old Cape Colony's liberal policy towards non-Europeans, the other, probably the majority, holding views differing in nothing from those of the Nationalists.

In the end these two obstacles to co-operation were overcome. The Native Bills were practically shelved. They were "not necessarily to be proceeded with" during the life of the next Parliament. Provincial relations, which mean in essence financial relations, were to be taken out of the hands of the Committee which had for some time past been trying to disentangle them with its hands tied, and were to be reconsidered with a favourable eye to increased local powers "within the framework of the South Africa Act."

Finally, there was to be a cabinet, not as at present of eleven members, but of twelve, six drawn from each of the two main parties, with General Hertzog as premier and General Smuts as deputy-head. The session was to be cut short, the coalition scheme laid before the Nationalist provincial congresses, and, if they approved of it, a general election held in May.

The South African party caucus accepted the scheme unanimously, but the Nationalist caucus was divided, 41 members voting for the scheme, and the rest, "members who have no feeling for coalition," abstaining. That was a most diplomatic description of the feelings of some of the abstainers. From the moment that the Prime Minister published his eight points, Dr. D. F. Malan, leader of the Cape Nationalists and one of the ablest men in the Cabinet, had openly displayed his hostility to the idea of coalition, and another Minister, Mr. A. J. P. Fourie, also a Cape man, had made no secret of his disapproval. Dr. Malan now complained that General Hertzog had not even shown his programme to all his colleagues before it was published, but had gone straight ahead and had then confronted the caucus with the hard choice of accepting his plan or rejecting his leadership.

Suspicion breeds suspicion. Dr. Malan's condemnation of coalition was answered in kind from the other political pole. Part of the Natal press warned its readers of the Greeks and the gifts they bore. But, presently, Dr. Malan modified his views sufficiently to declare his readiness to support a national government, but "only as far as it violates or ignores no principle of the National party." He called upon his followers to guard "the party and national interests . . . during the period of danger," which, it is not uncharitable to believe, meant the duration of the coalition. At this stage, on March 2, Parliament adjourned and Mr. Roos announced that now that the two generals had after all taken his advice, he would retire from politics till he was wanted again.

Three of the Nationalist provincial congresses, in the Free State, the Transvaal and Natal, adopted the scheme unanimously. Not so the Cape Congress. There, Dr. Malan got most of what he wanted to safeguard the pure doctrines of nationalism. The Congress accepted the scheme without approving of it, and pledged Cape Nationalists, whether they were pro- or anti-coalitionists,

to support the coming ministry so long as it up
National party principles. It also accepted Gei
Hertzog's promise to recognise even anti-coalitionist
national party candidates and to leave them free to e
cise " the usual rights of a member to withhold support

That lukewarm resolution has caused, and is caus
heart-searchings. The coming election is to be a coı
election. The agreement between the two big par
General Hertzog has been careful to explain, is n
coalition but a pact similar to the Nationalist-Labour
which has kept him in office since 1924. The South Afr
party and the National party are respectively to hold
seats they hold at present, subject to such casualtie
may be caused in either camp by the raids of Roosites
Independents and Labour men. In many constituen
the election is being decided at the nominations, whic
some cases have been fought with all the vigour of Amer
primaries. But the Premier's arrangement with the C
Congress means that Malanites are to get the Pact coı
and then be free to go against the ministry without b
morally bound to face their electors. It may work
better than it sounds. After all, faith and hope are
to be excluded from politics, and it must always be rem
bered that a straight South African party victory at
polls would simply have driven the Nationalists in u
themselves. But there is no denying that the arrangem
may work grievous harm to the new ministry. Alr
there are bitter complaints from many quarters that elec
are being obliged to vote for, or at the very least to abs
from voting against, Malanites in whom they have not
slightest confidence. Meanwhile Independent candid
have come forward in such numbers that the two gene
have had to issue an appeal to their followers to vote
the Pact ticket, irrespective of persons ; seven devolut
ists (home rulers) have been nominated in Natal,
Mr. Roos is forming a United Coalition party to force
amalgamation on the Pact, which has, in his eyes, l
moribund since birth. Roosites are to contest mos

the seats in the Transvaal, where their leader was for many years Nationalist chief.

It may be that, as his opponents assert, General Hertzog has not shrunk from autocratic methods, that he has bidden his followers "take this or lose me." But that is only what most South African Presidents used to do in times of crisis, and the fact remains that the vast majority of his followers have taken what he offered. As for General Smuts, his party had given him *carte blanche* in advance. And when all is said and done, this national ministry springs from the popular will.

Democracy has its faults, God wot, but its defenders can take comfort from the thought that on great occasions the popular will does get itself expressed somehow and often wills the necessary thing. There is certainly need now for a national government. Neither of the two generals has minced his words on that score. The Prime Minister has explained to a nervous Free State audience in his own constituency that, apart from all other considerations, the economic situation was so bad that united action was essential, and that to have rejected General Smuts's overtures would have driven the Afrikander South African party men away from their own flesh and blood finally, and would have swung the whole of the party over to an extreme of opposition to nationalism. General Smuts, speaking at Stellenbosch University, a perennial spring of Nationalist opinion, declared that politics were becoming a source of danger to the country and that, unless there were to be more tolerance and compromise, white South Africa would be heading straight for national suicide. He called for a united effort to set the Union's house in order and pointed the lesson from an appalling report on the poor whites that has been issued recently.* Next day our newspapers recorded the collapse of credit in the United States.

Three days later General Smuts repeated his warning in Cape Town. The new ministry would ask for "a doctor's

* See page 605.

mandate" in the economic sphere. "Within a few months," he concluded, "events may occur in the outer world which will make South Africa bless the day that it had a united Government at the helm."* Altogether reminiscent of the late President Steyn's warning to the National Convention that political union must be achieved before war broke out between England and Germany.

It all comes down to this. A Pact ministry, even though it may not endure for long, is of its nature independent enough to carry unpopular but necessary measures; all it needs is courage. There is one measure that no one has suggested but which is perhaps worth thinking about, for it would go far to cure some of South Africa's political ills. That measure is the institution of substantial educational and economic qualifications for the franchise irrespective of colour, creed or sex. That would do away with the fear of the rapidly growing non-European electorate that haunts so many folk, and reduce the political power of the increasing army of poor whites that perturbs others. There are good South African precedents for it. Away back in the eighteen-forties the Natal republicans proposed such a franchise just after their country had been annexed by Great Britain. Rhodes and Hofmeyr, a pact if ever there was one, actually effected the change in the Cape Colony in 1892 with general approval and good results. Perhaps, also, there is something to be said for raising the age limit to twenty-five.

All that, however, is pure speculation. We shall see what we shall see. The elections are to take place in May and Parliament is to meet in the last week of that month. Meanwhile the national ministry has been in the saddle since March 31. General J. B. M. Hertzog is Prime Minister and Minister for External Affairs; General J. C. Smuts is second in command and Minister of Justice. Inevitably and rightly, Mr. N. C. Havenga is once more Minister of Finance, Mr. P. Duncan takes Mines, Mr.

* As the mail closes, the news has reached South Africa that the United States has abandoned the gold standard (April 20, 1933).

P. G. W. Grobler, Native Affairs, and Mr. O. Pirow, Railways and Harbours, to which Defence is appropriately joined; General J. C. G. Kemp is Minister of Agriculture; Mr. A. P. J. Fourie, his opposition to co-operation overcome, is Minister of Labour, and Colonel Deneys Reitz, son of ex-President Reitz, of the Free State, is Minister of Lands; Mr. J. H. Hofmeyr, nephew of the old Cape leader, an ex-Rhodes scholar and sometime Administrator of the Transvaal, takes charge of Interior, Education and Public Health; Senator C. F. Clarkson, of Natal, takes Posts, Telegraphs and Public Works, and Mr. R. Stuttaford, who embodies the hopes of the business community, is Minister without portfolio.

It is an interesting combination and looks like being a strong one if it can win the necessary public support. Nine of the twelve have held office under the Crown before, some of them for long periods, and those who are new to the work are good men. For the first time since Union the traditional respect for provincial susceptibilities has been in great measure disregarded. Seven of the twelve are Transvaalers; the Cape and the Free State have only two representatives apiece and Natal one. But this departure from the provincial basis is sound enough in an avowedly national administration of a legislative union and, since the Rand gold mines are at present carrying South Africa on their backs, it is only fitting that Transvaalers should call the tune.

II. The Work of the Session

THE prolonged political crisis has tended to overshadow the work that Parliament did during its curtailed session. Finance naturally loomed large. At the New Year money was more plentiful than it had been at any time since England went off gold; in fact, people did not know what to do with it. Much of it went into town property, a good deal into government stocks, a great deal into gold shares while the Kaffir boom of January lasted;

but not much went into industry and hardly any into farm bonds.

Mr. Havenga at once promised the civil service restitution of the cuts that had been made in their salaries a year before and abolished the surcharge of 20 per cent. on ocean-freight rates on imported goods. But he has continued to pay the export subsidies on the plea that, in spite of the depreciation of our pound to sterling levels, prices have not yet risen high enough to rescue primary producers. On the other hand, he resisted great pressure from all sides of the House to reduce interest on agricultural bonds or to allow the Land Bank to depart from business principles. The most he would agree to was that the Land Bank should increase the amount of specific advances beyond the statutory level.

The Ottawa agreements were implemented readily, and a short Bill was also carried which gave the Reserve Bank power to make such investments as would prevent our paper pound from drifting too far away from sterling. The career of a highly controversial Liquor Amendment Bill was cut short with the session, but useful measures were passed dealing with industrial conciliation, weights and measures, fuel research and the Veterinary Acts. Finally, another Bill, which in the early fiery days of the session caused some trouble, was passed at last amicably enough. This was a Bill permitting the Potchefstroom University College, at which Calvinist views predominate, to insert the word "Christian" into its title. The Opposition would only agree to that on condition that the "conscience clause," which forbids institutions that draw State grants to penalise staff or students for their religious beliefs, was specially safeguarded. So it was done and the session ended. Not an exciting record of legislation perhaps, but sustaining . . . "boiled beef with plenty of carrots."

South Africa.
April 19, 1933.

NEW ZEALAND IN THE DEPRESSION

RECENT New Zealand history is of general interest as an illustration of the effects of the world depression upon countries whose economic life depends mainly upon agricultural and pastoral production. Optimists who insist that, compared with other countries, New Zealand is still relatively well off no doubt have, however vaguely, in their minds the fact that our average standard of production is still comparatively high, but if the effects of the depression are measured by the difference between the standards of to-day and the standards of prosperity, New Zealand must be included among the countries which have suffered most severely.

There is much truth in the commonly expressed view that New Zealand's whole prosperity is wrapped up with the prosperity of her so-called primary industries. Partly on account of her small size and the rather narrow range of her natural resources, a high proportion, probably as much as 40 per cent., of her aggregate production is exported, and the pastoral industries, of which wool, frozen meat, butter and cheese are the most important, have in every year since 1919 accounted for more than 91 per cent. of her total exports. New Zealand public opinion indeed exaggerates the significance of exports, tending to overlook the fact that more than half her national income is both produced and consumed at home. Sir James Parr, for example, the leader of the Legislative Council, declared early this year that "last year the farmers of New Zealand brought in a cheque of £36 million to the country for the sale of products in Britain. In the final result all New Zealand lived on this cheque of £36 million for a year." But fallacious as such statements are, New Zealand's dependence on the outside world is a fundamental fact in her economic life.

New Zealand in the Depression

I. Symptoms and Causes

THE statistical indicators of depression in New Zealand are similar to those recorded elsewhere. The export price index number had fallen at the end of 1931 by 45 per cent. as compared with 1929, and during 1932 it fell another 8 per cent. The aggregate value of exports has fallen considerably, and imports had to be reduced to at least a corresponding degree. An expert report has estimated the national income in 1928–9 at £150 million, in 1930–1 at £120 million and in 1931–2 at £110 million, with prospects of still further decline. The results of falling prices, deducible from general currency theory, have shown themselves on a considerable scale. The burden of debts in many cases became intolerable; the burden of fixed charges diminished or destroyed profits, so that production was drastically reduced in many industries, and the number of unemployed men rapidly increased, until during 1932 the number of men on the unemployment register of the Labour Department often exceeded 56,000 (out of a population of 1½ million). This figure excluded about 16,000 men in full-time employment whose remuneration came, either wholly or partly, from the funds of the Unemployment Board. The share price index fell 32 per cent. between 1926 and the end of 1932, and government budgets have shown considerable deficits which have had to be met by drawing upon reserves.

In addition to the general causes of depression, New Zealand has also been affected by the two main sets of special influences which, in greater or less degree, have been operative in all "new" countries. The first is the long-established practice of borrowing capital abroad, in the case of New Zealand mainly in Great Britain. The gross indebtedness of the national government in March 1930 was £267 million, of which more than half had been borrowed in London, and though about one quarter of the total was

incurred in connection with the great war, the greater part had been borrowed for public works, notably railways, roads, hydro-electric schemes and land settlement, as well as more than £30 million re-lent by the Government to farmers and workers. The net indebtedness of local governing bodies exceeded £61 million, of which more than one third had been borrowed outside New Zealand, mainly also for various public utilities. Since 1920 the National Debt had increased by about £66 million, with a further increase between 1930 and 1932 of more than £14 million, and the local body debt had more than doubled. The policy of borrowing abroad reacted on general economic organisation, first by keying the economic life of the country, so to speak, to a distribution of labour between different kinds of work which could be maintained only so long as external loans of considerable magnitude were available every year, and secondly, by necessitating a volume of exports to cover interest payments which, if for any reason prices fell, it might be difficult to maintain.

In her external borrowing New Zealand has for the most part avoided the extravagances so justly condemned by Sir Arthur Salter. The practice of borrowing abroad is not in itself vicious, and those who talk about its complete abandonment have an insufficient appreciation of the effects upon production standards which such a check on the free movement of capital would impose. Apart from the other more fundamental causes of the depression, it is widely thought that the payment of interest required by the debt would have imposed an intolerable burden. Nevertheless the borrowing powers of public bodies have probably sometimes been abused, and some of the capital raised was wasted. The development of railways, roads and harbours, for example, was pushed forward simultaneously at a rate which would have been excessive even if continuous prosperity had been assured. Nor was over-capitalisation confined to government work. Farming and its adjuncts had been over-

capitalised during the boom which followed the war, and though the effects of this had to some extent disappeared by 1929, enough remained to make serious complications in the adjustment of falling price-levels which then became necessary. Government control of public utilities, moreover, desirable and necessary as it was from other points of view, made the burden of depression more intractable than in countries where a bad year for the railways, for example, meant merely low dividends for railway shareholders. A bad year for the New Zealand railways did not involve any reduction in the interest payable to those who had provided the original capital. The interest on railway capital was a fixed charge, like interest on other government borrowings, and any deficit had to be made good by some other means, often with far-reaching effects on the whole economic structure. Similarly, though the policy of acting as middleman for advances to farmers had stimulated New Zealand's development, it too brought special difficulties in times of depression. A farmer overburdened by a private debt could sometimes make an arrangement with his creditor, which would ease the burden, or at the worst his title would be forfeited, his debt extinguished, and his creditor have the responsibility of managing his farm. No such arrangement, however, was possible between farmers who had borrowed money through the Advances to Settlers Department and the English investor who had advanced the money, and if default led to the abandonment of a farm, the liability for interest still had to be met somehow.

The full significance of the second special set of influences, the striking improvements which have occurred everywhere in the technique of agricultural and pastoral production, is less widely understood. The application of science to agriculture has been probably the most important influence in recent years in raising average production levels everywhere. New Zealand has played a worthy part in this movement. There are still many New Zealand farmers whose efficiency falls below the 100 per cent. level, but on

the whole the efficiency of New Zealand farming, of the production per head of the farming population, has considerably increased in recent years. It may be argued that the most important event in New Zealand twentieth-century history has been the rapid extension of the use of artificial fertilisers, especially in dairying. This development more than doubled New Zealand's butter exports between 1921 and 1930, while exports of cheese increased by 32 per cent. During this period the estimated annual yield per cow, measured in butter-fat production, increased from 154 to 218 lbs.

Admirable as these improvements were, their inevitable effects upon prices were seldom well understood. Similar changes were going on everywhere, and as the improvement in standards of living, which had taken place especially in the more advanced countries where the rate of population increase was declining, made it unlikely that large additional quantities of food would be purchased at the old prices, a considerable fall in agricultural and pastoral prices might have been anticipated. Far from predicting any such fall, authorities continued to represent to the farmers that there was a practically unlimited market for their produce, so that when prices did fall practically no attention was paid to increased efficiency as an explanation. The case of wheat illustrates the confusion in popular thought. Considerable trouble and expense have been incurred in scientific research for improving the standard of wheat production, but the same government which finances this research also maintains a sliding scale tariff designed to ensure to farmers a stable price for wheat. So far as this aim is realised, the consumer is prevented from enjoying any benefits from scientific research, while the gains for the farmer himself are by no means certain, as the guaranteed price is likely to stimulate further producton which cannot be marketed except at a sacrifice.

The inevitable consequences of more efficient primary production in diminishing the relative importance of

primary industries as sources of employment were eq misunderstood. The so-called drift to the towns almost universally deplored, and one Minister of Educ made it his special mission to give the school curric an "agricultural bias" to induce larger numbers of bo seek employment on the land. The state of mind rev by these misunderstandings has been a powerful influ in retarding recovery. At a coalition caucus meetin January, both Mr. Forbes, the Prime Minister, and Coates (leader of the Reform section of the Coalition p and now Minister of Finance) were reported to "emphasised the necessity of maintaining the volum primary production," and this view, sometimes with emphatic addendum, "at all costs," is almost univers approved. The question is never seriously consid whether the maintenance of the volume of primary proc tion at its old level may not in itself be an important ba to recovery.

As always, the burden of the depression was felt acutely through the increased real value of fixed inte charges. Falling export prices reduced the volum funds available in London for financing imports and mee the annual interest claims. As the latter were, by t nature, fixed, the relative contraction of imports ha be greater than the shrinkage in the value of exp Adjustments of this kind were not easy and pressure the London exchange rate began early. New Zeal abandoned the gold standard in the middle of 1929, w the exchange rate began to move upward, until by the of January, 1931, the New Zealand pound was depreci 10 per cent. in terms of sterling.

A further consequence of the depression was a c imposed upon the flow of loan funds. Prudent as it to avoid the creation of new liabilities, and reluctan investors abroad were to subscribe to new loans, policy called for a drastic redistribution of the la supply which could no longer be employed on public w

This redistribution would at any time have been difficult, and the difficulties were enormously increased by the generally depressed condition of industry. When England abandoned the gold standard, New Zealand currency was kept " tied " to sterling, but even this further relief against the pressure of the downward trend of prices was insufficient to restore equilibrium, and towards the end of 1931 the pressure placed upon the exchange by fixed interest charges was so great that the Government felt itself obliged to control exchange transactions, and for some months New Zealand trade was under a régime comparable to that which has prevailed recently in many European countries. Even when control was removed in the middle of 1932, there was a doubt whether the removal was not to some extent formal, dependent on an implicit understanding that the banks would voluntarily impose control, at least over capital transfers, similar to that which would have been compulsory if the government restrictions had remained.

II. Remedial Efforts

During 1931 unemployment increased and the position of the farmers became more difficult. A strong movement developed, under the pressure of farming interests, with the support of the Bank of New South Wales and several academic economists, aiming at further depreciation of the London exchange. Early in 1932 an expert committee recommended an increase in the exchange rate combined with a reduction in fixed charges, interest and rent, of 20 per cent., and in wages and salaries of 10 per cent. The salaries of government servants had already been reduced by 10 per cent. during 1931, and private wage contracts had been widely revised in a similar way. The fundamental problem was interpreted as that of adjusting a level of income and costs in New Zealand, which had lost touch with the falling price levels else-

where, and the problem was to be solved in part by a reduction of incomes and costs, and in part by an exchange policy to check the downward trend of prices and thereby avoid an even more drastic reduction of money incomes. The Government rejected the suggestion of a higher exchange rate, but adopted with modifications the other recommendations. Civil service salaries were subjected to a second cut, graduated from 5 per cent. to 12½ per cent., and to facilitate similar reductions generally, the Arbitration Court, which for nearly forty years had been a dominating influence in wage policy, was shorn of most of its powers of compulsion. The significance of the Arbitration Court as a factor imposing rigidity upon the industrial structure was often exaggerated by its critics, but it was regarded, however unreasonably, by many farmers as a symbol of the forces which they believed to be massed against them, and when hard times stimulated a general feeling that "something must be done," a government and parliament dominated by farming interests naturally turned against the Arbitration Court. More important was the compulsory reduction of interest and rent by roughly 20 per cent. Machinery was also created for additional relief for financially embarrassed mortgagors. There was an obvious rough justice about such measures which, when wages were falling rapidly, seemed at least an approximation to "equality of sacrifice." But it meant an unprecedented interference with the terms of contracts, and the ultimate effects upon willingness to lend cannot yet be foreseen. The attempt to apply to a wide variety of individual cases the general rules laid down in the Act prescribing these reductions has led to many anomalies for which supplementary legislation has been necessary, and this experience has shown again how difficult it is to stop halfway in government control of the terms of business contracts. The compulsory interest reductions have done nothing to diminish reluctance to risk money in permanent capital investments, and fixed deposits which used to form less

ɔ per cent. of total bank deposits now amount to n 60 per cent. and 70 per cent. In New Zealand, ìermany, it often seems that some of the institutions capitalist system are in process of being destroyed ɔple who profess and believe themselves to be its rdent supporters. It does not follow of course that struction of these institutions is a bad thing, but it ıys, especially in times of crisis, useful for people erstand what they are doing.

The Depreciation of the Exchange

pressure of farming interests for a higher exchange ıs resumed later in 1932, but resisted by the Govern- Mr. Forbes declaring that exchange was a matter ɛ banks alone. Most of the banks believed that a ; was unnecessary and undesirable, but the Govern- desperate for some means of relieving the difficulties ıers, eventually succumbed on January 20, 1933, to ɛssure of the high exchange interests ; the Associated announced that " they had been reluctantly com- to raise " the London rate to 25 per cent., and the ıment promised a guarantee against any loss in- . Mr. Downie Stewart, the Minister of Finance, ıd always been opposed to exchange inflation, re- , and was succeeded by Mr. Coates, who was believed the most powerful influence inside the Cabinet in of the new policy. Mr. Forbes declared, in a rather py metaphor, " I consider it my duty to remain on and if necessary, go down with the ship." The ɛd policy proved at least the falsity of the charge he Government was controlled by the banks. The ın was rather the reverse of this, and it did not notice that a policy of interference which would met with severe condemnation if practised by a r Government was by many cheerfully accepted when lgated by a Ministry of a different colour.

ɾ Zealand, indeed, like most countries to-day, suffers

from the scarcity of political leaders who combine a wide view of world affairs with a sense for practical politics and an ability to lead, and not merely to echo, popular prejudices. Our leaders have not indeed shirked the difficult and unprecedented tasks which have suddenly confronted them, and have often displayed both courage and patriotism. Unfortunately in the midst of the world crisis these things are not enough. The adjective most commonly used to describe the Prime Minister is " honest." It is his forte to tell the country bluntly how it stands, and not to endeavour to cloak unpleasant realities. But though honesty is not, in his case at least, merely a euphemism to indicate the absence of other more statesmanlike qualities, Mr. Forbes's most enthusiastic admirers have never pretended that he had any profound knowledge of financial or political principles in the wide sense. It is not many years since, when in the freedom of opposition he found it convenient to criticise the Government of the day for excessive borrowing, he refused to be fobbed off with any sophistries about changes in the value of money, insisting stoutly that " a pound's a pound." His colleague, Mr. Coates, a former Prime Minister and leader of the Reform section of the Coalition, has much more drive and initiative. The slogan, " the man who gets things done," which was used to win an election for him some years ago, had more truth in it than such slogans usually have, but whether the things which he gets done are wise or well considered is a different question. He is a typical New Zealander in that when once convinced that " something must be done " he is impatient of critics who point out defects in the policy which at the moment is attractive to him, and his critics charge him with undue extravagance. Mr. Downie Stewart has much wider knowledge and insight into political principles, and only a physical disability, a legacy of the war, which would have incapacitated most men, has prevented him from becoming leader of the Reform party. He is nearly alone among members of Par-

liament in delivering speeches almost entirely free from mere party claptrap. Even in making definite party points, he shows a freshness and originality of mind which places him well above his former ministerial colleagues. Mr. Stewart has been an able politician in balancing opposing interests, in sensing the quarters from which opposition is likely, and taking steps to meet it. It is doubtful, however, if he possesses those very rare qualities which times of unusual difficulty demand from a great leader. He is quite prepared for personal sacrifice where his interpretation of his duty demands it, but his temperament seems better suited to the more negative rôle of critic than to the positive part of a creative statesman. In fact, one is almost inclined to say that he displays in the present crisis, largely, no doubt, in consequence of his physical handicap, defects similar to those which were alleged, perhaps unjustly, to diminish Mr. Asquith's fitness as Prime Minister in time of war.

The high exchange rate met with the approval of most of the farmers, though the most important competitive advantage which dairy farmers might have anticipated disappeared when the Danish exchange rate was also depreciated by practically 25 per cent.; but city interests were almost unanimous in opposition, and the controversy encouraged the unfortunate tendency towards a political cleavage in which town and country interests were ranged on opposite sides. The Labour party opposed the high exchange, but the intellectual foundations of its opposition seemed somewhat confused, as Labour currency policy, while more radical than the Government's, could scarcely have avoided exactly the same kind of exchange consequences as were now condemned. Most of the Independent members were also in opposition, and a Labour no-confidence motion based upon the high exchange decision was supported by four members of the Government party as well. In the crucial division on the Bill guaranteeing the banks against loss, the Opposition was joined by another

four Government members, and the voting was 43 to 35, a striking contrast to the normal Government majority of 20. As one member of the Opposition was absent abroad, and at least two Government members voted for the Bill though opposed to its principles, the margin on which the Government was depending was extremely slender. In view of this, Mr. Coates' declaration less than three weeks after the decision had been announced that "it was high time that the controversy and agitation were allowed to drop" seemed somewhat naïve.

The New Zealand pegged exchange policy differs from most pegged exchanges in that it aims at keeping the exchange rate above and not below the "natural" level. This fact necessitates guaranteeing the banks against loss. With £100 sterling exchanging for £125 in New Zealand currency, the banks may be compelled to buy more sterling than they can sell to persons with sterling debts to meet, and the Government has therefore guaranteed the banks against loss incurred through such accumulation of funds. *Any policy which would make the "natural" rate conform* to the new pegged rate—and perhaps this is the same thing as saying any policy likely to realise the ends for which the high exchange was designed—must provide for some internal credit expansion which would raise prices and stimulate demand for the funds whose accumulation is otherwise threatened. At the time the exchange rate was raised, it was doubtful whether the way in which the maintenance of the exchange was connected with lower rates of interest was widely appreciated, but the further drastic steps to meet what Mr. Coates described as "our fundamental problem of narrowing the gap between internal costs and export prices," which were initiated on February 28, when the Government announced a scheme for the conversion of that part of the public debt (£115,320,000) which is held in New Zealand, together with a reduction of bank overdraft rates from 6 per cent. to 5 per cent., were a move likely to harmonise more closely the "natural" and the

pegged exchange rates. The large deficit anticipated for the coming year had been increased by nearly £4 millions on account of the exchange rate, in consequence of reduction in customs revenue, increased cost of remittances abroad and the indemnity to the banks. A sales tax of 5 per cent., from which, however, many articles of common use are exempt, was insufficient to fill the gap, and the Treasury sought further relief by a reduction of the burden of fixed interest charges.

The conversion scheme involved an all-round reduction by one-fifth in the interest due on public debt, with the proviso that in no case was the rate to fall below 4 per cent. On the large bloc of so-called " tax-free " securities (more than £32 million), the full reduction of one-fifth was, however, to be imposed, but the privilege of freedom from taxation until the date of maturity was to be maintained. It was proposed to make the nominal return on the whole of the internal debt 4 per cent., with the exception of the tax-free section, where it was to be 3½ per cent., by asking bondholders to accept in exchange for existing securities new securities of a nominal face value upon which a return of 4 per cent. would yield an income equivalent to four-fifths of the return on the original securities. Of the whole internal debt, more than £45 millions is held by the Post Office and other public departments. A considerable part of the debt held by the public had been borrowed at 5½ per cent. or 5 per cent., and it was anticipated that the net annual budgetary gain from the conversion would be £570,000.

In introducing the scheme Mr. Coates said that " bondholders who convert will be free from any other special taxation on interest that may be proposed," and the repetition of this statement made it quite clear that pressure would be applied to bondholders who were reluctant to convert. Mr. Downie Stewart argued that the conversion should be purely voluntary, and the Government spokesmen repeatedly compared it to the recent

successful English conversion. But a few days later it became clear that the Government had ignored Mr. Stewart's advice, for a proviso was introduced whereby dissenters would be liable to a special tax reducing their interest receipts by one-third. A bondholder who gave no formal indication of his intentions was presumed to have assented to the conversion proposals. There were thus three courses open to a bondholder. He might do nothing, in which case his interest was reduced by one-fifth; he might formally assent to the conversion offer, with an equivalent reduction in his interest; or he might formally dissent, whereupon his interest would be reduced by one-third.

In spite of formal similarities, it is clear that the conversion schemes of the New Zealand and the British Governments differ in quite fundamental respects. At the time the scheme was announced, the market price of 4½ per cent. bonds was well below par, and it has never been pretended that the Government could pay off dissenting bondholders in full. The only provision made for repayment of capital is designed to meet the needs of small bondholders on whom a drastic reduction of one-fifth in their income from government stock might impose undue hardship. The date of maturity of the new securities is also several years later than the date of maturity of the old. Provision has been made for similar treatment of local body debt held in New Zealand, the basic rate here being fixed at 4½ per cent., and the separate conversion schemes of the numerous local governing bodies requiring the approval of the Local Government Loans Board.

Whether such a set of proposals deserves the name conversion, usually hitherto reserved for operations such as those associated with the names of Goschen and Neville Chamberlain, may be doubted, but, on the whole, the proposals have not aroused much vocal hostility. The Government has been criticised a good deal for pretending that the conversion was voluntary, but there was no

organised parliamentary opposition. The Labour party in general has approved of the scheme, though Mr. Savage, the deputy-leader of the party, while believing that "the Bill provided an orderly means of bringing down interest rates, instead of allowing them to crash as the result of default," complained that there was "no attempt at graduation or exemption." The Government had no doubt received assurances beforehand from financial authorities of a favourable reception for the scheme, and Mr. Coates, in introducing it, was able to announce that holders of £16¼ million had already agreed to convert. Less than three weeks later (by March 17) this figure had been raised to more than £38 million, exclusive of the debt held by public departments, or more than 55 per cent. of the private holdings of debt.

The conversion of the public debt was the more spectacular part of the Government's newest proposals, and involved the most drastic breach with the traditional institutions of a capitalist economy, but it is probable that the more important step on the road to recovery was the reduction of bank overdraft rates with which have been associated parallel interest reductions elsewhere. In the absence of a highly organised money market, New Zealand reactions to lowered interest rates are likely to be sluggish, but some change of this kind appears to be an essential precondition for the revival of business activity. The Government seemed indeed a little confused about the purpose of the lower interest rate. "If we can cheapen the price of money," said Mr. Coates, "it will lead to cheaper prices for many other things," whereas the more reasonable view seems to be that easier money rates were likely to encourage business activity and raise prices so that internal conditions might approximate more closely to the requirements of the artificially pegged exchange rate. It has been argued for some time in certain quarters that the state of affairs disclosed by the continuous accumulation of fixed deposits already justified a lower interest rate, and

to that extent the change to which the banks have now agreed merely registers after some delay corresponding changes which have already occurred in the financial structure of the country. The lowering of the overdraft rate will not be effective until May 1, and it will then be seen whether the shocks which have been administered to business have been too severe to enable it to take advantage of the opportunities for expansion which the lower rate is designed to afford.

With a falling national income the revenue from taxation has also inevitably declined, and in addition to salary cuts, the Government has enforced drastic economies in many directions, including cuts in pensions. Careful economy is always desirable, but those who believed that the social services of New Zealand were an expression of a wider realisation of the true relative values of things have been disappointed at the complacency with which some sections of opinion have accepted the reduction of these services. Especially in connection with education, it has become unhappily clear that many politicians and business men still fail to appreciate fully the value to the whole community of liberal investment in this field.

New Zealand has never had a system of unemployment insurance, opinion on this subject being unduly influenced by the interpretation of British experience current in the less balanced sections of the British press, and the Government has therefore been compelled to meet an unusual unemployment problem with improvised measures, whose consequences have seldom been entirely satisfactory. The Government endeavours to associate the provision of relief with the performance of work, Mr. Forbes having asserted the Government policy to be "no work, no pay," but much of the work which is organised on this principle either cannot be regarded by those who perform it as much better than killing time, or is unsuitable for the men required to carry it out. In addition to other increases in taxation, a flat rate tax of 1s. in the £ is imposed on all incomes,

actically without exemptions, and the proceeds adminis-red by an Unemployment Board, which organises various pes of relief work. Both through the Unemployment ıard and otherwise the Government has endeavoured to unter unemployment by encouraging productive work. he industries to which most attention has been given are rming and gold-mining, the opinion being widespread at an appropriate way to diminish the profound economic stress of the farming population is to induce more people submit themselves to the same risks.

III. The Reaction to the Depression

T is difficult to make accurate generalisations about the outlook even of a country which, like New Zealand, is a population both small and unusually homogeneous. ew Zealand thought upon the depression may neverthe-ss be classified according as it emphasises dependence on orld conditions or the possibility of recovery by purely ternal action. The importance of world conditions is ow a well-established article of faith in many quarters, id there has been much discussion of the evil effects of ar debts, tariff barriers and the other factors familiar to udents elsewhere. But there is little understanding of e way in which these factors operate, or of the most propriate methods for their removal, and there is no nse whatever of responsibility on the part of New Zealand r world conditions as a whole. As Mr. Forbes observed June last year, " it is a matter of general agreement that riff barriers, rising higher as they have since the war, are a use of trade dislocation and depression," but while ew Zealand is agreed about the folly of tariff barriers in neral, she displays little eagerness to lower her own. The ncessions granted at the Ottawa Conference were grate-lly accepted, but preparations for the corresponding con-ssions promised to Great Britain are being made in a isurely fashion which indicates no lively sense of the

urgency of the situation. The manufacturers indeed are engaged in propaganda to show that tariff reductions are undesirable, and the Labour party is much disposed to use protectionist sentiment as a weapon against the Government. Mr. Ransom, the Minister of Lands, indeed, when the Government was charged last October with having sacrificed the manufacturers at Ottawa, hurriedly replied that the Ottawa agreements merely provided, in relation to tariff revision, "that the matter should be the subject of inquiry and investigation." The suggestion that any immediate action might be taken seemed almost to startle him. The farmer, traditionally in favour of low tariffs, is not, however, in a strong position to counter manufacturing propaganda. He showed himself curiously insensitive to the obvious charge that further exchange depreciation strengthened the barriers checking trade, and was difficult to reconcile with at least the spirit of the Ottawa agreements, and in special cases like wheat, where his own interests are affected, he showed himself as susceptible to the influence of protectionist sophistries as any manufacturer ever was. In fact, the most important change in tariff policy since the conclusion of the Ottawa agreements has been the placing of an embargo on Australian fruit.*

If New Zealand has no clear notion of the real foundations on which the economic interdependence of the parts of the Empire rests, much less is there any real understanding, translating itself into effective action, of the fact of world interdependence. As late as February 8 the Prime Minister confessed that the Government had no plan for the coming World Economic Conference, and that the question of representation at the Conference had not been considered. In the present state of governmental and public opinion it is to be feared that the official representatives of New Zealand at such conferences may be more

* Negotiations between Mr. Coates and an Australian Minister for a thorough overhaul of trading relations are, however, now (March 20) in train.

concerned with "defending New Zealand's interests" in the narrowest sense of that phrase than with any effort to grasp the world situation as a whole, or with considering whether a narrow interpretation of New Zealand's interests might, in no very long run, not prove damaging to the very interests which it was designed to protect.

Alongside the recognition of the importance of external factors, and often in the minds of the same people, the feeling is also strong that New Zealand's economic condition is the result mainly of her own internal policy. This belief expresses itself in two quite divergent ways. One section constantly emphasises the necessity for internal economy and stresses the evil effects of excessive borrowing and extravagant government expenditure. These influences have certainly had some effect, but the emphasis placed upon them is exaggerated, and when combined with the irrational but widespread view that we cannot reasonably expect ever to return to the high economic standards of recent years, this exaggeration may give New Zealand public policy a definitely reactionary twist. At the other extreme, failure to appreciate the importance of world conditions has led others to suppose that recovery inside New Zealand would be possible merely as a result of changes in credit policy. This error, shared in varying degrees by many sections of the community, still further delays appreciation of the character of the fundamental world adjustments which are necessary everywhere if the depression is to be ended.

New Zealand indeed suffers from the error so common in all groups of human society of supposing that the future can be planned on the assumption that the conditions of the past will be indefinitely perpetuated. Her short history began when population throughout the world was rapidly increasing, and there was still a vast untouched potential demand for foodstuffs and raw materials. In those days it was to the interest of individual New Zealanders, and to the advantage of the rest of the world, to stimulate without

limit the production of the commodities suitable to New Zealand's climate and other natural characteristics. Many of the fundamental conditions of this happy epoch have now altered, and New Zealand has not yet realised that a change in the fundamental conditions necessitates a corresponding change in general outlook and public policy. There is still of course a considerable unsatisfied potential demand for products such as New Zealand specialises in, but the conversion of potentiality into actuality depends upon improvements in the productivity of poorer countries and upon willingness to trade with them on the part of wealthier countries, which at the best can show their effects only slowly. The rate of population growth in the more industrialised areas throughout the world has now greatly diminished, the standard of efficiency in food production has been enormously improved, and standards of living have been so raised that the demand for foodstuffs and raw materials is much less elastic than it was, so that an increase of output is more likely to lead to a glut. The implications of the changed outlook are by no means easy to trace even in bare outline. Popular ideas on migration, on the economic value of the so-called luxury trades, and on many other subjects will probably have to undergo drastic revision, and the problems of adjustment may be insoluble except by international co-operation of a closer type than any with which we have hitherto experimented. Certainly failure to appreciate the character of these changed conditions and as yet to discover the adjustments which are called for in consequence is among the most important of the influences retarding the recovery of New Zealand and other primary producing countries.

New Zealand.
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